

**INVITATION TO COMMENT:  
Exposure Draft of the 2010 Global Investment Performance Standards**

CFA Institute established the GIPS Executive Committee (EC) as the governing body for the Global Investment Performance Standards (GIPS®). The GIPS EC seeks comment on the proposal set forth below regarding revisions to the GIPS standards. Comments must be in writing and received no later than **1 July 2009**. Responses will be accepted in hardcopy and via fax, but it would be helpful if an electronic version is submitted as well. Please submit your comments as early as possible to facilitate the review process. All comments and replies will be made public on the GIPS website (unless otherwise requested) at [www.gipsstandards.org](http://www.gipsstandards.org). Comments should be submitted via email to [standards@cfainstitute.org](mailto:standards@cfainstitute.org) or alternatively can be mailed or faxed as follows:

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Reference: Global Investment Performance Standards  
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**Executive Summary**

The current version of the GIPS standards was published in February 2005 and became effective 1 January 2006. To maintain global relevance, and recognizing the dynamic nature of the investment industry, the GIPS standards must be continuously updated through new provisions, Guidance Statements, and interpretations. The GIPS EC, in collaboration with various technical subcommittees and working groups, has reviewed the existing provisions and guidance in an effort to improve the Standards. Those provisions that are no longer necessary have been eliminated and new provisions have been added to promote best practice. Numerous edits have also been made in order to clarify the Standards. Additional history and background on the GIPS standards can be found on the GIPS website at [www.gipsstandards.org](http://www.gipsstandards.org).

**Effective Dates**

The proposed adoption of the revised GIPS standards is planned for early 2010 with an effective date of 1 January 2011. Compliant presentations that include performance results for periods that begin on or after 1 January 2011 must be prepared in accordance with the revised GIPS standards. Prior versions of the GIPS standards may be found on the GIPS website.

**Summary of Proposed Revisions to the GIPS Standards**

The following is a summary of some of the more significant revisions to the GIPS standards. Further guidance, interpretation, and examples will be issued as needed once the Standards have been finalized.

1. GIPS Compliance Statement – As part of the compliance statement, firms will be required to disclose if they have been verified and for which periods the firm has been verified. This change has been proposed to stress the importance of the verification process and encourage firms to comply with the recommendation that all firms claiming compliance with the GIPS standards become verified.
2. Fair Value – Firms will be required to value all portfolios at fair value. Fair value is described at length in the GIPS Valuation Guidelines in Appendix D. The change from market value to fair value will increase the accuracy, transparency, and reliability of the valuations used to calculate performance. This is consistent with financial reporting standards set by the International Accounting Standards Board and the Financial Accounting Standards Board.
3. Non-Fee-Paying Portfolios – Firms will be required to include all discretionary non-fee-paying portfolios in at least one composite. Previously firms were permitted to choose if they wanted to include non-fee-paying portfolios in any of the firm's composites.

4. Standard Deviation – Firms will be required to disclose the 3 year annualized ex-post standard deviation of the composite and benchmark. Standard deviation is a widely understood measure and is relatively easy to calculate. Requiring a specific risk measure allows for comparability between strategies and firms.
5. Risk Disclosure – As part of the composite description, firms will be required to disclose sufficient information to allow a prospective client to understand the relevant risks of the composite strategy.
6. Proprietary Assets – Firms will be required to disclose the percentage of composite assets composed of proprietary assets (e.g., “seed” capital or “house” money).
7. Verification - The scope and purpose of verification, as well as the required verification procedures that must be followed by verifiers, have been clarified in Section III in order to increase the understanding and consistency of verification.
8. Real Estate External Valuation - Real estate investments will be required to be valued by an independent external valuer/appraiser at least once every 12 months.
9. Closed-End Real Estate Funds - There are new provisions for closed-end real estate funds. These include a requirement to present an annualized since inception internal rate of return for each year since composite inception. The additional provisions are generally similar to those required and recommended under the private equity provisions.
10. After Tax/Taxation Guidance – Country-specific guidance on taxation issues has been removed from the Standards and will be addressed separately.
11. Prospective Client – A definition of prospective client has been added to the glossary.
12. Disclosures – Feedback is requested as to how long disclosures should be required to be included in a compliant presentation. Responses should indicate which specific disclosures should be considered for deletion and for what time period. For example, “Firms should be allowed to discontinue the disclosure of any changes to a composite’s name five years after the name change.”

**Comment Requested**

The GIPS EC is seeking comments from the industry on the proposals set forth in the following revised GIPS 2010 Exposure Draft. In addition to comments on specific items, please provide feedback on items you support. All comments received, unless requested to be confidential, will be posted on the GIPS website. The following draft is an unmarked copy. Another version of the draft that highlights each change is available for review on the GIPS website. Words appearing in CAPITAL letters are defined in the GIPS Glossary in Appendix E.

# Global Investment Performance Standards (GIPS®)

## EXPOSURE DRAFT: Sections 0 - 5

### 0. FUNDAMENTALS OF COMPLIANCE

#### 0.A Definition of the Firm — Requirements

- 0.A.1 The GIPS standards MUST be applied on a FIRM-wide basis.
- 0.A.2 FIRMS MUST be defined as an investment firm, subsidiary, or division held out to clients or ~~potential clients~~ PROSPECTIVE CLIENTS as a DISTINCT BUSINESS ENTITY.
- 0.A.3<sup>1</sup> TOTAL FIRM ASSETS MUST be the aggregate of the ~~MARKET FAIR~~ VALUE of all discretionary and nondiscretionary assets under management within the ~~defined~~ FIRM. This includes both fee-paying and non-fee-paying ~~assets~~ PORTFOLIOS.
- 0.A.4 FIRMS MUST include the performance of assets assigned to a ~~SUB-ADVISOR~~ subadvisor in a COMPOSITE provided the FIRM has discretion over the selection of the ~~subadvisor~~ SUB-ADVISOR.
- 0.A.5 Changes in a FIRM'S organization ~~are not permitted to~~ MUST NOT lead to alteration of historical COMPOSITE ~~results~~ performance.

#### 0.B Definition of the Firm — Recommendations

- 0.B.1 FIRMS ~~are encouraged to~~ SHOULD adopt the broadest, most meaningful definition of the FIRM. The scope of this definition SHOULD include all geographical (country, regional, etc.) offices operating under the same brand name regardless of the actual name of the individual investment management company.

#### 0.A Document Policies and Procedures — Requirements

- 0.A.6 FIRMS MUST document, ~~in writing~~, their policies and procedures used in establishing and maintaining compliance with ~~all the applicable REQUIREMENTS of~~ the GIPS standards.

#### 0.A Claim of Compliance — Requirements

- 0.A.7 Once a FIRM has met all ~~the applicable REQUIREMENTS~~ elements of the GIPS standards, the FIRM MUST use one of the following compliance statements to indicate that the FIRM is in compliance with the GIPS standards. The compliance statement MUST remain in a single paragraph.

For FIRMS that are currently verified:

"[Insert name of FIRM] claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the ~~Global Investment Performance Standards (GIPS®) standards.~~ [Insert name of FIRM] has been independently verified for the periods [insert dates]. A copy of the VERIFICATION REPORT(S) is/are available upon request."

For FIRMS that have been verified, but are not currently verified:

[Insert name of FIRM] claims compliance with the Global Investment Performance Standards

<sup>1</sup> For periods beginning prior to 1 January 2011, TOTAL FIRM ASSETS MUST be the aggregate of the MARKET VALUE of all discretionary and nondiscretionary assets under management within the defined FIRM.

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(GIPS®) and has prepared and presented this report in compliance with the GIPS standards. [Insert name of FIRM] has been independently verified for the periods [insert dates]. The FIRM is not currently independently verified.

For purposes of this provision, a VERIFICATION is considered current if the VERIFICATION REPORT covers a period ending not more than 24 months ago.

For FIRMS that have not been verified:

[Insert name of FIRM] claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. [Insert name of FIRM] has not been independently verified.

**Do you agree with including disclosure of the firm's verification status in the claim of compliance?**

**Do you agree with the classification of a current verification being within the last 24 months?**

- 0.A.8 If the FIRM does not meet all ~~the applicable~~ REQUIREMENTS of the GIPS standards, the FIRM ~~cannot~~ **MUST NOT** represent that it is "in compliance with the Global Investment Performance Standards except for...", or other statements that may indicate partial compliance with the GIPS standards.
- 0.A.9 Statements referring to the calculation methodology used in a ~~COMPOSITE~~ performance presentation as being "in accordance", ~~or "in compliance", or "consistent"~~, with the Global Investment Performance Standards, or similar statements are prohibited.
0. A.10 Statements referring to the performance of a single, existing client PORTFOLIO as being "calculated in accordance with the Global Investment Performance Standards" are prohibited except when a GIPS-compliant FIRM reports the performance of an individual client's account PORFOLIO to ~~the existing~~ that client.

### 0.A Firm Fundamental Responsibilities — Requirements

- 0.A.11 FIRMS **MUST** make every reasonable effort to provide a ~~compliant presentation~~ COMPLIANT PRESENTATION to all ~~prospective clients~~ PROSPECTIVE CLIENTS. ~~That is, FIRMS cannot~~ **MUST NOT** choose to whom they want to present compliant performance. ~~(As long as a~~ prospective client PROSPECTIVE CLIENT has received a ~~compliant presentation~~ COMPLIANT PRESENTATION within the previous 12 months, the FIRM has met this REQUIREMENT. ~~)~~
- 0.A.12 FIRMS **MUST** provide a complete list and description of the FIRM'S COMPOSITES ~~list and~~ COMPOSITE DESCRIPTION to any existing or PROSPECTIVE CLIENT ~~prospective client~~ that makes such a request ~~(a sample list and COMPOSITE DESCRIPTION are included in Appendix B)~~. FIRMS **MUST** list ~~"discontinued~~ closed" COMPOSITES on the FIRM'S list of COMPOSITES for at least 5 years after closure ~~discontinuation~~.
- 0.A.13 FIRMS **MUST** provide a ~~compliant presentation~~ COMPLIANT PRESENTATION for any COMPOSITE listed on the FIRM'S list and description of a ~~COMPOSITES~~ DESCRIPTION to any existing or prospective client PROSPECTIVE CLIENT that makes such a request.
- 0.A.14 When the FIRM jointly markets with other ~~FIRMS~~ firms, the FIRM claiming compliance with the GIPS standards **MUST** be sure that it is clearly defined and separate relative to ~~any other~~ FIRMS firms being marketed and that it is clear which FIRM is claiming compliance.
- 0.A.15 FIRMS ~~are encouraged to comply with the RECOMMENDATIONS and~~ **MUST** comply with all

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applicable REQUIREMENTS of the GIPS standards, including any updates ~~sd information, reports,~~ Guidance Sstatements, interpretations, Questions & Answers (Q&As), ~~or and~~ clarifications published by CFA Institute and the ~~Investment Performance Council~~ GIPS Executive Committee, which will be made available via the CFA Institute-GIPS website ([www.cfainstitute.org/gipsstandards.org](http://www.cfainstitute.org/gipsstandards.org)) as well as the *GIPS Handbook*.

0.A.16 FIRMS MUST comply with all applicable laws and regulations regarding the calculation and reporting of returns.

0.A.17 FIRMS MUST NOT present performance or performance related information that is false or misleading.

### 0.B Firm Fundamental Responsibilities - Recommendations

0.B.2 FIRMS SHOULD provide to each existing client, on an annual basis, a COMPLIANT PRESENTATION for the COMPOSITE(S) in which the client's PORTFOLIO is included.

0.B.3 FIRMS SHOULD comply with the RECOMMENDATIONS of the GIPS standards, including RECOMMENDATIONS included in any updated information, Guidance Statements, interpretations, Questions & Answers (Q&As), and clarifications published by CFA Institute and the GIPS Executive Committee, which will be made available via the GIPS website ([www.gipsstandards.org](http://www.gipsstandards.org)), as well as the *GIPS Handbook*.

### ~~0.B Verification—Recommendations~~

~~0.B. 24 FIRMS SHOULD be verified.~~

~~are encouraged to undertake the verification process defined as the review of a FIRM'S performance measurement processes and procedures by an independent third party verifier. A single verification report is issued in respect to the whole FIRM; verification cannot be carried out for a single COMPOSITE. The primary purpose of verification is to establish that a FIRM claiming compliance with the GIPS standards has adhered to the Standards.~~

~~0.B.3—FIRMS that have been verified are encouraged to add a disclosure to COMPOSITE presentations or advertisements stating that the FIRM has been verified. FIRMS MUST disclose the periods of verification if the COMPOSITE presentation includes results for periods that have not been subject to FIRM wide verification. The verification disclosure language SHOULD read:~~

~~“[Insert name of FIRM] has been verified for the periods [insert dates] by [name of verifier]. A copy of the verification report is available upon request.”~~

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### 1. INPUT DATA

#### 1.A Input Data — Requirements

1.A.1 All data and information necessary to support [all items included in a COMPLIANT PRESENTATION](#) ~~FIRM'S performance presentation and to perform the REQUIRED calculations~~ MUST be captured and maintained.

1.A.2<sup>2</sup> [For periods beginning on or after 1 January 2011, PORTFOLIOS](#) ~~valuations~~ MUST be valued at FAIR ~~based on MARKET~~ VALUES [in accordance with the GIPS Valuation Principles in Appendix D.](#) ~~(not cost basis or book values).~~

**Do you agree with the change from market value to fair value?**

1.A.3<sup>3</sup> [FIRMS MUST value PORTFOLIOS in accordance with the COMPOSITE specific valuation policy. PORTFOLIOS MUST be valued:](#)  
a) [At least monthly.](#)  
b) [On the date of all LARGE CASH FLOWS.](#)  
c) [No more frequently than required by the valuation policy.](#)

~~For periods prior to 1 January 2001, PORTFOLIOS MUST be valued at least quarterly. For periods between 1 January 2001 and 1 January 2010, PORTFOLIOS MUST be valued at least monthly. For periods beginning 1 January 2010, FIRMS MUST value PORTFOLIOS on the date of all LARGE EXTERNAL CASH FLOWS.~~

1.A.4 For periods beginning [on or after](#) 1 January 2010, FIRMS MUST value PORTFOLIOS as of the calendar month-end or the last business day of the month.

1.A.5 For periods beginning [on or after](#) 1 January 2005, FIRMS MUST use TRADE DATE ACCOUNTING.

1.A.6 ACCRUAL ACCOUNTING MUST be used for fixed-income securities and all other ~~assets investments~~ that accrue interest income. [The MARKET VALUES](#) ~~FAIR VALUE~~ of fixed-income securities MUST include accrued income.

1.A.7 For periods beginning [on or after](#) 1 January 2006, COMPOSITES MUST have consistent beginning and ending annual valuation dates. Unless the COMPOSITE is reported on a non-calendar fiscal year, the beginning and ending valuation dates MUST be at calendar year-end ~~(or on the last business day of the year).~~

#### 1.B Input Data — Recommendations

[1.B.1 FAIR VALUES SHOULD be obtained from a qualified independent external third party.](#)

[1.B.2 ACCRUAL ACCOUNTING SHOULD be used for dividends \(as of the ex-dividend date\).](#)

<sup>2</sup> [For periods beginning prior to 1 January 2011, PORTFOLIO valuations MUST be based on MARKET VALUES \(not cost basis or book values\).](#)

<sup>3</sup> [For periods beginning prior to 1 January 2001, PORTFOLIOS MUST be valued at least quarterly. For periods beginning on or after 1 January 2001, PORTFOLIOS MUST be valued at least monthly. For periods beginning on or after 1 January 2010, FIRMS MUST value PORTFOLIOS on the date of all LARGE CASH FLOWS.](#)

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1.B.3 When presenting NET-OF-FEES RETURNS, FIRMS SHOULD accrue INVESTMENT MANAGEMENT FEES.

~~1.B.3 Calendar month end valuations or valuations on the last business day of the month are RECOMMENDED.~~

1.B.4 FIRMS SHOULD value PORTFOLIOS on the date of all EXTERNAL CASH FLOWS.

## 2. CALCULATION METHODOLOGY

### 2.A Calculation Methodology — Requirements

2.A.1 ~~Total return~~ TOTAL RETURNS, including realized and unrealized gains and losses plus income, MUST be used.

2.A.2<sup>4</sup> TIME-WEIGHTED RATES OF RETURN that adjust for EXTERNAL CASH FLOWS MUST be used. Periodic returns MUST be geometrically ~~linked~~ LINKED. EXTERNAL CASH FLOWS MUST be treated in a consistent manner with the FIRM'S documented, COMPOSITE-specific policy. ~~At a minimum:~~ FIRMS MUST define LARGE CASH FLOW for each COMPOSITE to determine when the PORTFOLIOS in that COMPOSITE are to be revalued for calculating performance.

~~a. For periods beginning 1 January 2005, FIRMS MUST use approximated rates of return that adjust for daily-weighted EXTERNAL CASH FLOWS.~~

~~b. For periods beginning 1 January 2010, FIRMS MUST value PORTFOLIOS on the date of all LARGE EXTERNAL CASH FLOWS.~~

2.A.3 COMPOSITE returns MUST be calculated by asset weighting the individual PORTFOLIO returns using beginning-of-period values or a method that reflects both beginning-of-period values and EXTERNAL CASH FLOWS.

2.A.4 Returns from cash and cash equivalents held in PORTFOLIOS MUST be included in TOTAL RETURN calculations.

2.A.5 All returns MUST be calculated after the deduction of the actual TRADING EXPENSES incurred during the period. FIRMS MUST NOT use ~~Estimated TRADING EXPENSES~~ are not permitted.

2.A.6<sup>5</sup> ~~For periods beginning 1 January 2006, FIRMS MUST calculate COMPOSITE returns by asset weighting the individual PORTFOLIO returns at least quarterly.~~ For periods beginning on or after 1 January 2010, COMPOSITE returns MUST be calculated by asset weighting the individual PORTFOLIO returns at least monthly.

2.A.7 If the actual direct TRADING EXPENSES cannot be identified and segregated from a BUNDLED FEE:

a) When calculating GROSS-OF-FEES RETURNS, returns MUST be reduced by the entire BUNDLED FEE or the portion of the BUNDLED FEE that includes the direct TRADING EXPENSES. FIRMS MUST NOT ~~The use of estimated TRADING EXPENSES~~ is not permitted.

<sup>4</sup> For periods beginning on or after 1 January 2005, FIRMS MUST use approximated rates of return that adjust for daily-weighted EXTERNAL CASH FLOWS. For periods beginning on or after 1 January 2010, FIRMS MUST value PORTFOLIOS on the date of all LARGE EXTERNAL CASH FLOWS.

<sup>5</sup> For periods beginning on or after 1 January 2006, FIRMS MUST calculate COMPOSITE returns by asset weighting the individual PORTFOLIO returns at least quarterly.

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- b) When calculating NET-OF-FEES RETURNS, returns MUST be reduced by the entire BUNDLED FEE or the portion of the BUNDLED FEE that includes the direct TRADING EXPENSES and the INVESTMENT MANAGEMENT FEE. FIRMS MUST NOT ~~The use of estimated TRADING EXPENSES is not permitted.~~

### 2.B Calculation Methodology — Recommendations

- 2.B.1 Returns SHOULD be calculated net of non-reclaimable withholding taxes on dividends, interest, and capital gains. Reclaimable withholding taxes SHOULD be accrued.

~~2.B.2 FIRMS SHOULD calculate COMPOSITE returns by asset weighting the member PORTFOLIOS at least monthly.~~

~~2.B.3 FIRMS SHOULD value PORTFOLIOS on the date of all LARGE EXTERNAL CASH FLOWS.~~

### 3. COMPOSITE CONSTRUCTION

#### 3.A Composite Construction — Requirements

- 3.A.1<sup>6</sup> All actual, ~~fee-paying~~, discretionary PORTFOLIOS MUST be included in at least one COMPOSITE. ~~Although non-fee-paying discretionary PORTFOLIOS may be included in a COMPOSITE (with appropriate disclosures), n~~Non-discretionary PORTFOLIOS ~~are not permitted to~~ MUST NOT be included in a FIRM'S COMPOSITES.

**Do you agree with requiring the inclusion of non-fee paying discretionary portfolios in composites?**

- 3.A.2 COMPOSITES MUST be defined according to similar investment objectives and/or strategies. COMPOSITES MUST include all PORTFOLIOS that meet the COMPOSITE DEFINITION. The full COMPOSITE DEFINITION MUST be made available on request.

- 3.A.3 COMPOSITES MUST include new PORTFOLIOS on a timely and consistent basis after the PORTFOLIO comes under management ~~unless specifically mandated by the client.~~

- 3.A.4 Terminated PORTFOLIOS MUST be included in the historical returns of the appropriate COMPOSITES up to the last full measurement period that the PORTFOLIO was under management.

- 3.A.5 PORTFOLIOS ~~are not permitted to~~ MUST NOT be switched from one COMPOSITE to another unless documented changes in client guidelines or the redefinition of the COMPOSITE make it appropriate. The historical record of the PORTFOLIO MUST remain with the appropriate COMPOSITE.

~~3.A.6 Convertible and other hybrid securities MUST be treated consistently across time and within COMPOSITES.~~

- 3.A.6<sup>7</sup> ~~CARVE-OUT segments excluding cash are not permitted to be used to represent a discretionary PORTFOLIO and, as such, are not permitted to be included in COMPOSITE returns. When a single~~

<sup>6</sup> For periods beginning prior to 1 January 2011, all actual, fee-paying, discretionary PORTFOLIOS MUST be included in at least one COMPOSITE.

<sup>7</sup> For periods beginning prior to 1 January 2010, if CARVE-OUTS are included in a COMPOSITE, cash MUST be allocated to the CARVE-OUT in a timely and consistent manner.

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~~asset class is carved out of a multiple asset class PORTFOLIO and the returns are presented as part of a single asset COMPOSITE, cash MUST be allocated to the CARVE-OUT returns in a timely and consistent manner. B For periods beginning on or after 1 January 2010, CARVE-OUTS returns are not permitted to MUST NOT be included in single asset class COMPOSITES returns unless the CARVE-OUT is actually managed separately with its own cash balance.~~

3.A.7 COMPOSITES MUST include only assets under management within the defined FIRM. FIRMS ~~are not permitted to~~ MUST NOT ~~link~~ LINK simulated or model PORTFOLIOS with actual performance.

3.A.8 If a FIRM sets a minimum asset level for PORTFOLIOS to be included in a COMPOSITE, FIRMS MUST NOT include ~~no~~ PORTFOLIOS below that asset level ~~can be included~~ in that COMPOSITE. Any changes to a COMPOSITE-specific minimum asset level ~~are not permitted to~~ MUST NOT be applied retroactively.

3.A.9 FIRMS MUST NOT present a COMPOSITE to a PROSPECTIVE CLIENT known to have a PORTFOLIO with assets less than the COMPOSITE'S minimum asset level.

**Do you agree with changing 3.A.9 from a recommendation to a requirement?**

3.A.10 FIRMS that wish to remove PORTFOLIOS from COMPOSITES in cases of SIGNIFICANT CASH FLOWS MUST define "significant" on an EX-ANTE COMPOSITE-specific basis and MUST consistently follow the COMPOSITE-specific SIGNIFICANT CASH FLOW policy.

### 3.B Composite Construction — Recommendations

~~3.B.1 CARVE-OUT returns SHOULD not be included in single asset class COMPOSITE returns unless the CARVE-OUTS are actually managed separately with their own cash balance.~~

3. B.1 To remove the effect of a ~~significant~~ SIGNIFICANT EXTERNAL CASH FLOW, FIRMS SHOULD use the use of a TEMPORARY NEW ACCOUNTS is RECOMMENDED ~~(as opposed to adjusting the COMPOSITE composition to remove PORTFOLIOS with significant EXTERNAL CASH FLOWS)~~

~~3.B.3 FIRMS SHOULD not market a COMPOSITE to a prospective client who has assets less than the COMPOSITE'S minimum asset level.~~

## 4. DISCLOSURE

### 4.A Disclosures — Requirements

**Should firms be allowed to remove certain disclosures after a defined period of time? If so, which disclosures would be eligible for removal and after what period of time?**

4.A.1 FIRMS MUST disclose the definition of "FIRM" used to determine the TOTAL FIRM ASSETS and FIRM-wide compliance.

4.A.2 FIRMS MUST disclose the availability of a complete list and description of ~~all of~~ the FIRM'S COMPOSITES.

4.A.3 FIRMS MUST disclose the minimum asset level, if any, below which PORTFOLIOS are not included in a COMPOSITE. FIRMS MUST also disclose any changes to the minimum asset level.

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- 4.A.4 FIRMS MUST disclose the currency used to express performance.
- 4.A.5 FIRMS MUST disclose the presence, use, and extent of leverage, ~~of derivatives~~ and/or short positions, (if material), including a ~~sufficient~~ description of the ~~use~~, frequency, of use and characteristics of the instruments sufficient to identify risks.

#### Do you agree with the inclusion of short positions in provision 4.A.5?

- 4.A.6 FIRMS MUST clearly label returns as GROSS-OF-FEES or NET-OF-FEES.
- 4.A.7 FIRMS MUST disclose relevant details of the treatment of withholding tax on dividends, interest income, and capital gains, if material. ~~If using indexes that are net of taxes, the FIRM MUST disclose the tax basis of the BENCHMARK (e.g., Luxembourg-based or U.S.-based) versus that of the COMPOSITE.~~ FIRMS MUST also disclose if BENCHMARK returns are net of withholding tax.
- 4.A.8 FIRMS MUST disclose and describe any known material inconsistencies ~~differences~~ in the exchange rates or valuation sources used among the PORTFOLIOS within a COMPOSITE and between the COMPOSITE and the BENCHMARK.
- 4.A.9 If the COMPLIANT PRESENTATION ~~presentation~~ conforms with ~~local~~ laws and regulations that differ from the ~~GIPS REQUIREMENTS of the GIPS standards~~, FIRMS MUST disclose this fact and disclose the manner in which the ~~local~~ laws and regulations conflict with the GIPS standards.
- 4.A.10 For any performance presented for periods prior to 1 January 2000 that does not comply with the GIPS standards, FIRMS MUST disclose the period of non-compliance, ~~and how the presentation is not in compliance with the GIPS standards.~~
- 4.A.11 For periods beginning prior to 1 January 2010, if CARVE-OUTS are included in a COMPOSITE, ~~when a single asset class is carved out of a multiple asset PORTFOLIO and the returns are presented as part of a single asset COMPOSITE,~~ FIRMS MUST disclose the policy used to allocate cash to ~~the CARVE-OUTS~~ returns.
- 4.A.12 FIRMS MUST disclose the FEE SCHEDULE appropriate to the ~~presentation~~ COMPLIANT PRESENTATION.
- 4.A.13 If a COMPOSITE contains PORTFOLIOS with BUNDLED FEES, FIRMS MUST disclose for each annual period shown the percentage of COMPOSITE assets that is BUNDLED FEE PORTFOLIOS.
- 4.A.14 If a COMPOSITE contains PORTFOLIOS with BUNDLED FEES, FIRMS MUST disclose the various types of fees that are included in the BUNDLED FEE.
- 4.A.15 When presenting GROSS-OF-FEES RETURNS, FIRMS MUST disclose if any other fees are deducted in addition to the direct TRADING EXPENSES.
- 4.A.16 When presenting NET-OF-FEES RETURNS, FIRMS MUST disclose:
- a) If any other fees are deducted in addition to the INVESTMENT MANAGEMENT FEE and direct TRADING EXPENSES.
  - b) If model or actual INVESTMENT MANAGEMENT FEES are used.
  - c) If returns are net of PERFORMANCE BASED FEES.
- 4.A.17 FIRMS MUST disclose that ~~ADDITIONAL INFORMATION~~ information regarding policies for

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valuing PORTFOLIOS, calculating and reporting returns, and preparing COMPLIANT PRESENTATIONS is available upon request.

- 4.A.18 ~~For periods beginning~~ on or after 1 January 2006, FIRMS MUST disclose the use of a ~~subadvisor~~ SUB-ADVISOR(S) and the periods a ~~subadvisor(s)~~ SUB-ADVISOR(S) was used.
- 4.A.19 FIRMS MUST disclose all significant events that would help a ~~prospective client~~ PROSPECTIVE CLIENT interpret the performance record.
- 4.A.20 FIRMS MUST disclose the COMPOSITE DESCRIPTION which must include sufficient information to allow a PROSPECTIVE CLIENT to understand the key characteristics of the COMPOSITE strategy, including risks.

**Do you agree with requiring the disclosure of key characteristics and risks in the composite description?**

- 4.A.21 If a FIRM is redefined, the FIRM MUST disclose the date, nature, and reason for the redefinition.
- 4.A.22 If a FIRM has redefined a COMPOSITE, the FIRM MUST disclose the date, ~~and nature, and reason for~~ of the change. Changes to COMPOSITE DEFINITIONS ~~are not permitted to~~ MUST NOT be applied retroactively.
- 4.A.23 FIRMS MUST disclose any changes to the name of a COMPOSITE.
- 4.A.24 FIRMS MUST disclose the COMPOSITE CREATION DATE.
- 4.A.25 FIRMS MUST disclose if, for periods beginning prior to 1 January 2010, calendar month-end PORTFOLIO valuations or valuations on the last business day of the month are not used.
- 4.A.26 FIRMS MUST disclose which DISPERSION measure is presented.
- 4.A.27 If the FIRM has adopted a SIGNIFICANT CASH FLOW policy for a specific COMPOSITE, then the FIRM MUST disclose how the FIRM defines a SIGNIFICANT CASH FLOW for that COMPOSITE, and for which period(s).
- 4.A.28 FIRMS MUST disclose, for a minimum of 12 months, any change to the COMPLIANT PRESENTATION due to a correction of a material error.
- 4.A.29 FIRMS MUST disclose the 3 year annualized EX-POST STANDARD DEVIATION (using a minimum of monthly periods) for the COMPOSITE and for the BENCHMARK as of the most recent annual period presented. The PERIODICITY of the COMPOSITE MUST be identical to the PERIODICITY of the BENCHMARK when calculating EX-POST STANDARD DEVIATION.

**Do you agree with the inclusion of a standard deviation disclosure?**

#### 4.B Disclosures — Recommendations

- 4.B.1 If a parent company contains multiple defined FIRMS, each FIRM within the parent company ~~is encouraged to~~ SHOULD disclose a list of the other FIRMS contained within the parent company.
- ~~4.B.2 FIRMS SHOULD disclose when a change in the a calculation methodology or valuation source results in a material impact on the performance of a COMPOSITE return.~~
- 4.B.2 FIRMS SHOULD disclose the key assumptions used to value investments.

~~4.B.3— FIRMS that have been verified SHOULD add a disclosure to their COMPOSITE presentation stating that the FIRM has been verified and clearly indicating the periods the verification covers if the COMPOSITE presentation includes results for periods that have not been subject to FIRM-wide verification.~~

4.B.3 FIRMS SHOULD disclose the description of the BENCHMARK and FIRMS SHOULD disclose material differences between the BENCHMARK and COMPOSITE strategy.

## 5. PRESENTATION AND REPORTING

### 5.A Presentation and Reporting — Requirements

5.A.1 The following items MUST be included in each COMPLIANT PRESENTATION: ~~reported for each COMPOSITE presented:~~

- a) At least 5 years of annual performance (or a record for the period since FIRM or COMPOSITE inception if the FIRM or COMPOSITE has been in existence less than 5 years) that meets the REQUIREMENTS of the GIPS standards; after presenting 5 years of annual performance, the FIRM MUST present additional annual performance up to a minimum of 10 years. (For example, after a FIRM presents a minimum 5 years of compliant history, the FIRM MUST add an additional year of performance each year so that after 5 years of claiming compliance, the FIRM presents a minimum 10-year performance record.)
- b) Annual returns for all years. For COMPOSITES with a COMPOSITE INCEPTION DATE beginning on or after 1 January 2011, when the initial period is less than a full year, FIRMS MUST present returns from the COMPOSITE inception through the initial year-end.
- c) The number of PORTFOLIOS and amount of assets in the COMPOSITE, and either the percentage of the TOTAL FIRM ASSETS represented by the COMPOSITE or the amount of TOTAL FIRM ASSETS at the end of each annual period. If the COMPOSITE contains 5 PORTFOLIOS or less, the number of PORTFOLIOS is not REQUIRED.
- d) A measure of DISPERSION of individual PORTFOLIO returns for each annual period. If the COMPOSITE contains 5 PORTFOLIOS or less for the full year, a measure of DISPERSION is not REQUIRED.

5.A.2 FIRMS may ~~link~~ LINK non-GIPS-compliant returns to their compliant history so long as the FIRMS meet the disclosure REQUIREMENTS for non-compliant performance and only compliant returns are presented for periods after 1 January 2000. ~~(For example, a FIRM that has been in existence since 1995 and that wants to present its entire performance history and claim compliance beginning 1 January 2005 MUST present returns that meet the REQUIREMENTS of the GIPS standards at least from 1 January 2000 and MUST meet the disclosure REQUIREMENTS for any noncompliant history prior to 1 January 2000.)~~

5.A.3 Returns ~~of PORTFOLIOS and COMPOSITES~~ for periods of less than 1 year ~~are not permitted to~~ MUST NOT be annualized.

5.A.4 a) Performance track records of a past ~~FIRM~~ firm or affiliation MUST be ~~linked~~ LINKED to or used to represent the historical record of a new FIRM ~~or new affiliation~~ if, on a COMPOSITE-specific basis:

- i) Substantially all the investment decision makers are employed by the new FIRM (e.g., research department, portfolio managers, and other relevant staff),

## Global Investment Performance Standards (GIPS®)

### EXPOSURE DRAFT: Sections 0 - 5

ii) The ~~staff and~~ decision-making process remains substantially intact and independent within the new FIRM, and

iii) The new FIRM has records that document and support the reported performance.

b) The new FIRM MUST disclose that the performance ~~results~~ from the past ~~FIRM—firm or affiliation~~ are ~~linked~~ LINKED to the performance record of the new FIRM,

~~e) In addition to 5.A.4.a and 5.A.4.b, when one FIRM joins an existing FIRM, performance of COMPOSITES from both FIRMS MUST be linked to the ongoing returns if substantially all the assets from the past FIRM'S COMPOSITE transfer to the new FIRM.~~

c) If a ~~compliant~~ FIRM acquires another firm or affiliation ~~or is acquired by a noncompliant FIRM~~, the ~~FIRMS have~~ has 1 year to bring ~~the any~~ non-compliant assets into compliance.

5.A.5 For periods beginning on or after 1 January 2006 and ending prior to 1 January 2011, if a COMPOSITE includes ~~or is formed using single asset class~~ CARVE-OUTS ~~from multiple asset class PORTFOLIOS~~, the ~~presentation~~ COMPLIANT PRESENTATION MUST include the percentage of the COMPOSITE assets that is composed of CARVE-OUTS ~~prospectively for each period~~.

**Is it appropriate to discontinue disclosure 5.A.5 for periods after 1 January 2011?**

5.A.6 The ~~total return~~ TOTAL RETURN for the BENCHMARK (or BENCHMARKS) that reflects the investment strategy or mandate represented by the COMPOSITE MUST be presented for each ~~annual~~ period.

a) If ~~no the FIRM determines no appropriate~~ BENCHMARK ~~is presented for the COMPOSITE exists~~, the ~~presentation~~ FIRM MUST ~~explain~~ disclose why no BENCHMARK is ~~disclosed~~ presented.

b) If the FIRM changes the BENCHMARK ~~that is used for a given COMPOSITE in the performance presentation~~, the FIRM MUST disclose ~~both~~ the date, nature, and ~~the~~ reason(s) for the change.

c) If a custom BENCHMARK or combination of multiple BENCHMARKS is used, the FIRM MUST ~~describe~~ disclose the BENCHMARK creation and re-balancing process.

5.A.7 If a COMPOSITE contains any non-fee-paying PORTFOLIOS, the FIRM MUST present, as of the end of each annual period, the percentage of the COMPOSITE assets represented by the non-fee-paying PORTFOLIOS.

5.A.8 For periods beginning on or after 1 January 2011, if a COMPOSITE contains any PROPRIETARY ASSETS, the FIRM MUST present, as of the end of each annual period, the percentage of the COMPOSITE assets represented by the PROPRIETARY ASSETS.

**Do you agree with the requirement to present the percentage of the composite assets composed of proprietary assets?**

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## EXPOSURE DRAFT: Sections 0 - 5

### 5.B Presentation and Reporting — Recommendations

5.B.1 FIRMS SHOULD present GROSS-OF-FEES RETURNS.

~~5.B.12~~ It is ~~RECOMMENDED~~ that FIRMS SHOULD present the following items:

~~a. COMPOSITE returns gross of INVESTMENT MANAGEMENT FEES and ADMINISTRATIVE FEES and before taxes (except for nonreclaimable withholding taxes);~~

~~b~~a) Cumulative returns for COMPOSITE and BENCHMARKS for all periods,

~~e~~b) Equal-weighted mean and median returns for each COMPOSITE,

~~d. Graphs and charts presenting specific information REQUIRED or RECOMMENDED under the GIPS standards~~

~~e~~c) Returns for quarterly and/or ~~shorter~~ monthly time periods,

~~f~~d) Annualized COMPOSITE and BENCHMARK returns for periods greater than 12 months.

~~g. COMPOSITE level country and sector weightings.~~

5.B.3 It is ~~RECOMMENDED~~ that FIRMS SHOULD present additional relevant COMPOSITE-level risk measures, ~~such as beta, tracking error, modified duration, information ratio, Sharpe ratio, Treynor ratio, credit ratings, value at risk (VaR), and volatility, over time of the COMPOSITE and BENCHMARK.~~

5.B.4 After presenting the REQUIRED minimum of 5 years of compliant historical performance, ~~the~~ FIRMS ~~is encouraged to~~ SHOULD bring any remaining portion of its historical track record into compliance with the GIPS standards. ~~(This does not preclude the REQUIREMENT that the FIRM MUST add annual performance to its track record on an on-going basis to build a 10-year track record.)~~

5.B.5 FIRMS SHOULD present greater than 10 years of annual performance in the COMPLIANT PRESENTATION.

5.B.6 FIRMS SHOULD update COMPLIANT PRESENTATIONS quarterly.

5.B.7 FIRMS SHOULD present the 3 year annualized EX-POST STANDARD DEVIATION (using a minimum of monthly periods) and the corresponding 3 year annualized TOTAL RETURN for each annual period presented for the COMPOSITE and for the BENCHMARK. The PERIODICITY of the COMPOSITE MUST be identical to the PERIODICITY of the BENCHMARK when calculating EX-POST STANDARD DEVIATION.

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## EXPOSURE DRAFT: Section 6 – Real Estate

### 6. REAL ESTATE

Unless otherwise noted, the following REAL ESTATE provisions supplement all the REQUIRED and RECOMMENDED elements of the GIPS standards as outlined in Sections II.0. through Section II.5.

REAL ESTATE provisions were first included in the GIPS standards in 2005 and were effective 1 January 2006. All COMPLIANT PRESENTATIONS that included REAL ESTATE performance results for periods after 31 December 2005 were REQUIRED to meet all the REQUIREMENTS of the REAL ESTATE provisions of the 2005 version of the GIPS standards. The following REAL ESTATE provisions are effective 1 January 2011. Unless otherwise noted, all COMPLIANT PRESENTATIONS that include REAL ESTATE performance results for periods after 31 December 2010 are REQUIRED to meet all the REQUIREMENTS and SHOULD adhere to all the RECOMMENDATIONS of the following REAL ESTATE provisions.

If a PORTFOLIO includes a mix of REAL ESTATE and other investments that are not REAL ESTATE, then these REQUIREMENTS and RECOMMENDATIONS MUST apply if the majority of the FAIR VALUE of PORTFOLIO investments are REAL ESTATE.

~~Following are provisions that apply to the calculation and presentation of REAL ESTATE assets. The REAL ESTATE provisions supplement all the REQUIRED and RECOMMENDED elements of the GIPS standards (outlined in Section II.0. through Section II.5.), except the REAL ESTATE provisions that override the existing GIPS provisions for valuation: II.6.A.1, II.6.A.2, II.6.B.1, and II.6.B.2. Investment types not considered as REAL ESTATE and, therefore, the FIRM MUST adhere to Sections II.0. through Section II.5., addressed elsewhere in the general provisions of the GIPS standards include:~~

- Publicly traded REAL ESTATE securities, including any listed securities issued by public companies,
- Commercial mortgage-backed securities (CMBS),
- Private debt investments, including commercial and residential loans where the expected return is solely related to contractual interest rates without any participation in the economic performance of the underlying REAL ESTATE.

~~If a PORTFOLIO includes a mix of REAL ESTATE and other investments that are not REAL ESTATE, then these REQUIREMENTS and RECOMMENDATIONS only apply to the REAL ESTATE portion of the PORTFOLIO, and when the FIRM CARVES OUT the REAL ESTATE portion of the PORTFOLIO, the GIPS CARVE OUT provisions (see II.3.A.7) MUST also be applied.~~

#### 6.A Real Estate Input Data — Requirements (1.A.3.a, 1.A.3.b, and 1.A.4 do not apply)

- 6.A.1<sup>1</sup> REAL ESTATE investments MUST be valued at ~~FAIR~~MARKET VALUE at least quarterly in accordance with GIPS Valuation Principles in Appendix D. ~~once every 12 months. For periods beginning 1 January 2008, REAL ESTATE investments MUST be valued at least quarterly.~~
- 6.A.2 REAL ESTATE investments MUST be valued by an independent external PROFESSIONALLY DESIGNATED, CERTIFIED, OR LICENSED COMMERCIAL PROPERTY VALUER/APPRaiser at least once every 36 months. For periods beginning on or after 1 January 2012, REAL ESTATE investments MUST be valued by an independent external PROFESSIONALLY DESIGNATED, CERTIFIED, OR LICENSED COMMERCIAL PROPERTY VALUER/APPRaiser at least once every 12 months. In markets where neither professionally designated nor appropriately sanctioned valuers or appraisers are available and valuers or appraisers from other countries bearing such credentials do not commonly operate, then the ~~party responsible for engaging such services locally shall~~ FIRM MUST take necessary steps to ensure that only well-qualified independent property valuers or appraisers are used.

**Do you agree that real estate investments must be valued by an independent external appraiser every 12 months beginning 1 January 2012?**

<sup>1</sup> For periods ending prior to 1 January 2008, REAL ESTATE investments MUST be valued at MARKET VALUE at least once every 12 months.

## Global Investment Performance Standards (GIPS®)

### EXPOSURE DRAFT: Section 6 – Real Estate

6.A.3 For periods beginning on or after 1 January 2010, FIRMS MUST value PORTFOLIOS as of the calendar quarter-end or the last business day of the quarter.

#### **6.B Real Estate Input Data — Recommendations (1.B.1 and 1.B.4 do not apply)**

6.B.1 For periods beginning prior to 1 January 2012, REAL ESTATE investments SHOULD be valued by an independent external PROFESSIONALLY DESIGNATED, CERTIFIED, OR LICENSED COMMERCIAL PROPERTY VALUER / APPRAISER at least once every 12 months at least quarterly.

~~6.B.2 REAL ESTATE investments SHOULD be valued by an external valuer or appraiser at least once every 12 months.~~

~~6.B.3 If calculating the INTERNAL RATE OF RETURN, FIRMS SHOULD use quarterly cash flows at a minimum.~~

#### **6.A Real Estate Calculation Methodology – Requirements (2.A.6 does not apply)**

6.A.4 INCOME and CAPITAL RETURNS (component returns) MUST be calculated separately using geometrically LINKED TIME-WEIGHTED RATES OF RETURN.

6.A.5 TIME-WEIGHTED COMPOSITE returns and component returns MUST be calculated by asset weighting the individual PORTFOLIO returns at least quarterly.

**The following provision is an additional REQUIREMENT for CLOSED-END REAL ESTATE FUNDS:**

**Do you agree with the additional requirements and recommendations for closed-end real estate funds as defined?**

6.A.6<sup>2</sup> The annualized since inception INTERNAL RATE OF RETURN (SI-IRR) must be calculated using the period-end valuation of the COMPOSITE as a terminal value. For periods beginning on or after 1 January 2011, SI-IRR MUST be calculated using daily cash flows.

#### **6.B Real Estate Calculation Methodology – Recommendations**

**The following provision is an additional RECOMMENDATION for CLOSED-END REAL ESTATE FUNDS:**

6.B.2 For periods beginning prior to 1 January 2011, the annualized SI-IRR SHOULD be calculated using daily cash flows.

#### **6.A Real Estate Composite Construction — Requirements**

**The following provision is an additional REQUIREMENT for CLOSED-END REAL ESTATE FUNDS:**

6.A.7 Each COMPOSITE MUST be defined by investment strategy and VINTAGE YEAR. These classifications MUST remain consistent throughout the life of the COMPOSITE.

#### **6.A Real Estate Disclosures — Requirements (4.A.10, 4.A.25, and 4.A.29 do not apply)**

<sup>2</sup> When calculating the SI-IRR, the periods beginning prior to 1 January 2011 MUST be calculated at a minimum using quarterly cash flows.

## Global Investment Performance Standards (GIPS®)

### EXPOSURE DRAFT: Section 6 – Real Estate

6.A.8 The following items MUST be disclosed in COMPLIANT PRESENTATIONS for REAL ESTATE COMPOSITES:

~~6.A.3 In addition to the other disclosure REQUIREMENTS of the GIPS standards, performance presentations for REAL ESTATE investments MUST disclose:~~

~~a. The calculation methodology for component returns—that is, component returns (1) calculated separately using chain-linked TIME-WEIGHTED RATES OF RETURN, or (2) adjusted such that the sum of the INCOME RETURN and the CAPITAL RETURN is equal to the TOTAL RETURN;~~

~~b.a.~~ The FIRM'S description of discretion.

~~e.b.~~ The ~~valuation methodologies and procedures~~ (e.g., discounted cash flow valuation model, capitalized income approach, sales comparison approach, the valuation of debt payable in determining the value of leveraged REAL ESTATE) and material changes to valuation methodologies.

c. For periods beginning on or after 1 January 2012, FIRMS must explain and disclose the impact of material differences between:

i. The valuation used in performance reporting and the valuation used in financial reporting.

ii. The EXTERNAL VALUATION and the valuation used in performance reporting.

d. As a measure of annual dispersion, the high and low TIME-WEIGHTED RATES OF RETURN ~~The range of performance returns~~ for the individual PORTFOLIOS ~~accounts~~ in the COMPOSITE.

~~e. The source of the valuation (whether valued by an external valuer or INTERNAL VALUATION or whether values are obtained from a third party manager) for each period;~~

~~e. f.~~ The percent of total FAIRMARKET VALUE of COMPOSITE assets ~~(asset weighted not equally weighted) to total REAL ESTATE assets~~ valued by using an EXTERNAL VALUATION to total FAIR VALUE of COMPOSITE assets. ~~for each period, and~~

~~f.g.~~ For periods beginning prior to 1 January 2012, the frequency REAL ESTATE investments are valued by external valuers or appraisers.

6.A.9 FIRMS MUST disclose the following as applicable:

a. Component returns are calculated separately using geometrically LINKED TIME-WEIGHTED RATES OF RETURN and so the sum of income and capital returns may not equal the TOTAL RETURN due to the interaction (compounding) effect.

b. Component returns are adjusted such that the sum of income and capital returns is equal to the TOTAL RETURN (allowed only for periods beginning prior to 1 January 2011).

6.A.10 For any TIME-WEIGHTED RATES OF RETURN presented for periods prior to 1 January 2006 that does not comply with the GIPS standards, FIRMS MUST disclose the period of non-compliance.

The following provisions are additional REQUIREMENTS for CLOSED-END REAL ESTATE FUNDS:

6.A.11 FIRMS MUST disclose the period of non-compliance when presenting non-GIPS-compliant annualized SI-IRR and MUST meet the disclosure REQUIREMENTS for non-compliant performance.

## Global Investment Performance Standards (GIPS®)

### EXPOSURE DRAFT: Section 6 – Real Estate

6.A.12 FIRMS MUST disclose the periods of cash flows used in the SI-IRR calculation if daily cash flows are not used for periods beginning prior to 1 January 2011.

6.A.13 FIRMS MUST disclose the VINTAGE YEAR of the COMPOSITE and how the VINTAGE YEAR was defined.

6.A.14 FIRMS MUST disclose the FINAL REALIZATION (LIQUIDATION) DATE of all closed COMPOSITES.

#### 6.B Real Estate Disclosures — Recommendations

6.B.3 FIRMS SHOULD disclose the basis of accounting for the PORTFOLIOS in the COMPOSITE (e.g. U.S. GAAP, IFRS or other basis of accounting).

~~6.B.4 If since inception INTERNAL RATE OF RETURN performance results are shown, the FIRM SHOULD disclose the time period that is covered as well as the frequency of the cash flows used in the calculation.~~

#### 6.A Real Estate Presentation and Reporting — Requirements (5.A.2 does not apply)

~~6.A.415 FIRM MUST present The income and capital appreciation component returns MUST be presented in addition to TOTAL RETURN.~~

**Do you agree that component returns must be disclosed, and that the method described in provision 6.A.9.b will no longer be acceptable for periods beginning after 1 January 2011?**

6.A.16 FIRMS may LINK non-GIPS-compliant TIME-WEIGHTED RATES OF RETURN to compliant history so long as the FIRMS meet the disclosure REQUIREMENTS for non-compliant performance and only compliant returns are presented for periods after 1 January 2006.

#### The following provisions are additional REQUIREMENTS for CLOSED-END REAL ESTATE FUNDS:

6.A.17 FIRMS MUST present NET-OF-FEES annualized SI-IRR of the COMPOSITE for each year since the COMPOSITE inception and FIRMS MUST present at least 5 years of performance (or a record for the period since FIRM or COMPOSITE inception if the FIRM or COMPOSITE has been in existence less than 5 years) that meets the REQUIREMENTS of the GIPS standards. When the initial period is less than a full year, FIRMS MUST present NET-OF-FEES annualized SI-IRR from COMPOSITE inception through the initial year end.

6.A.18 If GROSS-OF-FEES annualized SI-IRR is presented, FIRMS MUST present GROSS-OF-FEES annualized SI-IRR of the COMPOSITE for each year since COMPOSITE inception and FIRMS MUST present at least 5 years of performance (or a record for the period since FIRM or COMPOSITE inception if the FIRM or COMPOSITE has been in existence less than 5 years) that meets the REQUIREMENTS of the GIPS standards. When the initial period is less than a full year and GROSS-OF-FEES annualized SI-IRR is presented, FIRMS MUST present GROSS-OF-FEES annualized SI-IRR from COMPOSITE inception through the initial year end.

6.A.19 FIRMS MUST present, as of each period end:

- a. Total COMPOSITE since inception COMMITTED CAPITAL
- b. Total COMPOSITE since inception PAID-IN CAPITAL (cumulative DRAWDOWN)
- c. Total COMPOSITE since inception cumulative INVESTED CAPITAL
- d. Total COMPOSITE since inception cumulative DISTRIBUTIONS

6.A.20 FIRMS MUST present, as of each period end:

## Global Investment Performance Standards (GIPS®)

### EXPOSURE DRAFT: Section 6 – Real Estate

- a. TOTAL VALUE to PAID-IN CAPITAL (INVESTMENT MULTIPLE or TVPI)
- b. Cumulative DISTRIBUTIONS to PAID-IN CAPITAL (REALIZATION MULTIPLE or DPI)
- c. PAID-IN CAPITAL to COMMITTED CAPITAL (PIC MULTIPLE)
- d. RESIDUAL VALUE TO PAID-IN CAPITAL (RVPI)

#### 6.B Real Estate Presentation and Reporting — Recommendations (5.B.1 and 5.B.7 do not apply)

6.B.4 FIRMS SHOULD present GROSS-OF-FEES TOTAL RETURN and NET-OF-FEES TOTAL RETURN.

6.B.5 When available, the component returns ~~capital and income segments~~ of the appropriate REAL ESTATE BENCHMARK —SHOULD be presented.

~~6.B.6 is RECOMMENDED that FIRMS present the since inception INTERNAL RATE OF RETURN for the COMPOSITE.~~

~~6.B.7 It is RECOMMENDED that the following items be presented, especially in those circumstances when the investment manager has the ability to control the timing of investor capital call tranches during the fund's or PORTFOLIO'S initial acquisition period:~~

~~a. GROSS and NET OF FEES (including incentive allocations) annualized since inception TIME-WEIGHTED RATE OF RETURN and INTERNAL RATE OF RETURN (terminal value based on ENDING MARKET VALUE net assets of the COMPOSITE) to the last year reported for the COMPOSITE.~~

~~b. GROSS and NET OF FEES (including incentive allocations) annualized since inception TIME-WEIGHTED RATE OF RETURN and INTERNAL RATE OF RETURN (based on realized cash flows only, excluding unrealized gains) to the last year reported for the COMPOSITE.~~

~~c. In addition, other performance measures may provide additional useful information for both prospective and existing investors. The GIPS PRIVATE EQUITY Provisions (See GIPS standards H.7) provide guidance with regard to such additional measures as investment and REALIZATION MULTIPLES and ratios relating to PAID-IN CAPITAL.~~

#### The following provision is an additional RECOMMENDATION for CLOSED-END REAL ESTATE FUNDS:

6.B.6 FIRMS SHOULD present GROSS-OF-FEES annualized SI-IRR for each year since COMPOSITE inception.

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## EXPOSURE DRAFT: Section 7 – Private Equity

### 7. PRIVATE EQUITY

Unless otherwise noted, the following PRIVATE EQUITY provisions supplement all the REQUIRED and RECOMMENDED elements of the GIPS standards as outlined in Sections II.0. through Section II.5.

PRIVATE EQUITY provisions were first included in the GIPS standards in 2005 and were effective 1 January 2006. All COMPLIANT PRESENTATIONS that included PRIVATE EQUITY performance results for periods after 31 December 2005 were REQUIRED to meet all the REQUIREMENTS of the PRIVATE EQUITY provisions of the 2005 version of the GIPS standards. The following PRIVATE EQUITY provisions are effective 1 January 2011. Unless otherwise noted, all COMPLIANT PRESENTATIONS that include PRIVATE EQUITY performance results for periods after 31 December 2010 are REQUIRED to meet all the REQUIREMENTS and SHOULD adhere to all the RECOMMENDATIONS of the following PRIVATE EQUITY provisions.

The following are provisions that apply to the calculation and presentation of PRIVATE EQUITY investments other than PRIVATE EQUITY OPEN-END and ~~or~~ EVERGREEN FUNDS (which MUST follow the main GIPS provisions), and CLOSED-END REAL ESTATE FUNDS (which MUST follow Section II.6).

~~The PRIVATE EQUITY provisions supplement all the REQUIRED and RECOMMENDED elements of the GIPS standards (outlined in Section II.0. through Section II.5), except these PRIVATE EQUITY provisions that override the existing GIPS provisions for valuation (II.7.A.1 and II.7.B.1), calculation methodology (II.7.A.2 and II.7.A.3), fees (II.7.A.4 and II.7.A.5), and presentation and reporting of returns (II.7.A.20). [Corrected January 2006]~~

#### 7.A Private Equity Input Data — Requirements (1.A.3 and 1.A.4 do not apply)

7.A.1<sup>1</sup> For periods beginning on or after 1 January 2011, PRIVATE EQUITY investments MUST be valued at FAIR VALUE at least annually (preferably quarterly but at least annually) according to in accordance with the GIPS PRIVATE EQUITY Valuation Principles provided in Appendix D.

7.A.2. For periods beginning on or after 1 January 2010, FIRMS MUST value PORTFOLIOS as of the calendar year-end or the last business day of the year.

#### 7.B Private Equity Input Data — Recommendations (1.B.4 does not apply)

7.B.1 PRIVATE EQUITY investments SHOULD be valued at FAIR VALUE -quarterly in accordance with the GIPS Valuation Principles in Appendix D.

#### 7.A Private Equity Calculation Methodology — Requirements (2.A.2, 2.A.3, and 2.A.6 do not apply)

7.A.2<sup>3</sup> FIRMS MUST calculate the annualized since-inception INTERNAL RATE OF RETURN (SI-IRR).

7.A.3<sup>4</sup> For periods beginning on or after 1 January 2011, the annualized SI-IRR MUST be calculated using either daily or monthly cash flows and the period-end valuation of the unliquidated remaining holdings the COMPOSITE as a terminal value. Stock

<sup>1</sup> For periods ending prior to 1 January 2011, PRIVATE EQUITY investments MUST be valued according to the GIPS Private Equity Valuation Principles. The GIPS Private Equity Valuation Principles can be found in Appendix D of the 2005 version of the GIPS standards on the GIPS website ([www.gipsstandards.org](http://www.gipsstandards.org)).

<sup>2</sup> When calculating the SI-IRR, periods beginning prior to 1 January 2011 MUST be calculated using either daily or monthly cash flows.

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### EXPOSURE DRAFT: Section 7 – Private Equity

DISTRIBUTIONS MUST be included as cash flows and MUST be valued at the time of DISTRIBUTION.

7.A.45 NET-OF-FEES RETURNS MUST be net of actual INVESTMENT MANAGEMENT FEES (~~including~~ CARRIED INTEREST), and TRANSACTION EXPENSES.

7.A.56 ~~For INVESTMENT ADVISORS,~~ All returns MUST be net of all underlying partnership and/or fund fees and CARRIED INTEREST and NET-OF-FEES RETURNS MUST, in addition, be net of all ~~the INVESTMENT ADVISOR'S~~ actual INVESTMENT MANAGEMENT FEES, expenses, and CARRIED INTEREST.

#### 7.B Private Equity Calculation Methodology — Recommendations

7.B.2 For periods beginning prior to 1 January 2011, the annualized SI-IRR SHOULD be calculated using daily cash flows.

#### 7.A. Private Equity Composite Construction — Requirements (3.A.10 does not apply)

7.A.67 All ~~CLOSED-END~~ PRIVATE EQUITY investments, ~~including, but not limited to, fund of funds, partnerships, or DIRECT INVESTMENTS~~ excluding funds of funds, MUST be included in a COMPOSITE defined by investment strategy and VINTAGE YEAR. These classifications MUST remain consistent throughout the life of the COMPOSITE.

7.A.78 Partnership/fund investments strategies and DIRECT INVESTMENTS strategies, ~~and OPEN-END PRIVATE EQUITY investments (e.g., EVERGREEN FUNDS)~~ MUST be included in separate COMPOSITES.

7.A.9 For funds of funds, all discretionary investments MUST be included in at least one COMPOSITE defined by investment strategy and/or VINTAGE YEAR.

#### 7.B. Private Equity Composite Construction — Recommendations (3.B.1 does not apply)

#### 7.A. Private Equity Disclosures — Requirements (4.A.10, 4.A.25, 4.A.26, 4.A.27, and 4.A.29 do not apply)

7.A.10 FIRMS MUST disclose the VINTAGE YEAR of the COMPOSITE and how the VINTAGE YEAR is defined.

7.A.911 ~~For all closed (discontinued) COMPOSITES,~~ FIRMS MUST disclose the ~~final realization (liquidation) date of the COMPOSITE,~~ FINAL LIQUIDATION DATE of all liquidated COMPOSITES.

7.A.120 FIRMS MUST disclose the unrealized appreciation/depreciation of the COMPOSITE for the most recent period.

~~7.A.11 FIRMS MUST disclose the total COMMITTED CAPITAL of the COMPOSITE for the most recent period.~~

7.A.123 ~~For the most recent period,~~ FIRMS MUST disclose the valuation methodologies used to value ~~their~~ PRIVATE EQUITY investments. If any material change in valuation methodologies occurred, in either valuation basis or methodology from the prior period, the change MUST be disclosed.

7.A.134 If the ~~presentation~~ COMPLIANT PRESENTATION complies with ~~any local or~~

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### EXPOSURE DRAFT: Section 7 – Private Equity

~~regional~~-valuation guidelines in addition to the GIPS ~~PRIVATE EQUITY~~ Valuation Principles, FIRMS MUST disclose which ~~local or regional~~ guidelines have been used.

~~7.A.14 FIRMS MUST document the FIRM'S valuation review procedures and disclose that the procedures are available upon request.~~

~~7.A.15 FIRMS MUST disclose the definition of the COMPOSITE investment strategy (e.g., early stage, development, buy-outs, generalist, turnaround, mezzanine, geography, middle market, and large transaction).~~

7.A.16 ~~If a BENCHMARK is used,~~ FIRMS MUST disclose the calculation methodology used for the BENCHMARK. If FIRMS present the PUBLIC MARKET EQUIVALENT of a COMPOSITE as a benchmark, FIRMS MUST disclose the index used.

7.A.17 FIRMS MUST disclose if a valuation basis other than FAIR VALUE was used for periods beginning prior to 1 January 2011. ~~is used to value investments within the COMPOSITE, FIRMS MUST disclose for the most recent period presented their justification for why FAIR VALUE is not applicable. Additionally, FIRMS MUST disclose the following:~~

~~a. — The carrying value of non FAIR VALUE basis investments relative to total fund.~~

~~b. — The number of holdings valued on a non FAIR VALUE basis.~~

~~c. — The absolute value of the non FAIR VALUE basis investments.~~

7.A.18 FIRMS MUST explain and disclose the impact of material differences between the valuation used in performance reporting and the valuation used in financial reporting at period end.

~~7.A.18 FIRMS MUST disclose whether they are using daily or monthly cash flows in the SI-IRR calculation. FIRMS MUST disclose the frequency of cash flows used in the SI-IRR calculation if daily cash flows are not used for periods beginning prior to 1 January 2011.~~

~~7.A.19 If a FIRM does not use a calendar year period end, a disclosure MUST be made indicating the period end used.~~

7.A.19 FIRMS MUST disclose any period of non-compliance and MUST meet the disclosure REQUIREMENTS for non-compliant performance.

#### **7.A Private Equity Presentation and Reporting — Requirements (5.A.1.a, 5.A.1.b, 5.A.1.d, and 5.A.2 do not apply)**

7.A.20 FIRMS MUST present both the NET-OF-FEES and GROSS-OF-FEES annualized SI-IRR of the COMPOSITE for each year since COMPOSITE inception and FIRMS MUST present at least 5 years of performance (or a record for the period since FIRM or COMPOSITE inception if the FIRM or COMPOSITE has been in existence less than 5 years) that meets the REQUIREMENTS of the GIPS standards. When the initial period is less than a full year, FIRMS MUST present the NET-OF-FEES and GROSS-OF-FEES annualized SI-IRR from the COMPOSITE inception through the initial year end.

7.A.21 For periods beginning on or after 1 January 2011, for funds of funds, if the COMPOSITE is defined by investment strategy only, FIRMS MUST also present the GROSS-OF-FEES and/or NET-OF-FEES annualized SI-IRR of the underlying funds by

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VINTAGE YEAR as of the most recent year end.

7.A.22<sup>3</sup> FIRMS MUST present as of each period end: ~~For each period presented, FIRMS MUST report:~~

- a. Total COMPOSITE since inception PAID-IN CAPITAL to date (cumulative DRAWDOWN),
- ~~b. Total current INVESTED CAPITAL, and~~
- b. Cumulative Total COMPOSITE since inception DISTRIBUTIONS to date.

7.A.23 For periods beginning on or after 1 January 2011, FIRMS MUST present as of each period end:

- a. Total COMPOSITE since inception COMMITTED CAPITAL
- b. Total COMPOSITE since inception AMOUNT REALIZED

7.A.24 FIRMS MUST present as of each period end ~~For each period presented, FIRMS MUST report: the following multiples:~~

- a. TOTAL VALUE to PAID-IN CAPITAL (INVESTMENT MULTIPLE or TVPI),
- b. Cumulative DISTRIBUTIONS to PAID-IN CAPITAL (REALIZATION MULTIPLE or DPI)
- c. PAID-IN CAPITAL to COMMITTED CAPITAL (PIC MULTIPLE) ~~and~~
- d. RESIDUAL VALUE to PAID-IN CAPITAL (RVPI)

7.A.25<sup>4</sup> ~~If a BENCHMARK is shown, the time period used to calculate the cumulative annualized SI-IRR for the BENCHMARK MUST be the same as that reflects the same strategy and VINTAGE YEAR of the COMPOSITE and MUST reflect the investment strategy represented by the COMPOSITE. be presented for the same periods for which the COMPOSITE is presented. If no BENCHMARK is shown, the presentation MUST explain why no BENCHMARK is disclosed.~~

**7.B Private Equity Presentation and Reporting — Recommendations (5.B.1 and 5.B.7 do not apply)**

~~7.B.2 FIRMS SHOULD present the average holding period of the investments (PORTFOLIO companies) over the life of the COMPOSITE.~~

7.B.3 If a fund of funds COMPOSITE is defined by VINTAGE YEAR only, FIRMS SHOULD also present the GROSS-OF-FEES and/or NET-OF-FEES annualized SI-IRR of the underlying funds by investment strategy as of the most recent period end.

<sup>3</sup> For periods beginning prior to 1 January 2011, FIRMS MUST present the total current INVESTED CAPITAL for each period presented.

<sup>4</sup> For periods beginning prior to 1 January 2011, if no BENCHMARK is presented, the presentation MUST explain why no BENCHMARK is presented.

# Global Investment Performance Standards (GIPS®)

## EXPOSURE DRAFT: Section 8 – Wrap Fee/SMA

### 8. WRAP FEES/Separately Managed Accounts (SMA)

The following are ~~additional requirements~~ provisions that apply to the calculation and presentation of WRAP FEE/SMA assets for firms to follow when presenting ~~wrap fee/SMA performance~~ to a prospective wrap fee WRAP FEE/SMA sponsor or wrap fee WRAP FEE/SMA client prospect PROSPECTIVE CLIENT (“~~wrap fee WRAP FEE/SMA prospect~~ PROSPECTIVE CLIENT”) and existing ~~wrap fee WRAP/SMA sponsors or existing wrap fee WRAP/SMA clients~~ (“~~wrap fee/SMA client~~”) in compliance with the GIPS standards (“Standards”). Unless otherwise noted, the following WRAP FEE/SMA provisions supplement all of the REQUIRED and RECOMMENDED elements of the GIPS standards (outlined in Section II.0 through Section II.5), except the WRAP FEE/SMA REQUIREMENTS that override GIPS provisions 4.A.10 and 5.A.2.

These provisions are applicable only to those FIRMS that manage WRAP FEE/SMA PORTFOLIOS. While there are different types of WRAP FEE/SMA structures, these provisions apply to all WRAP FEE/SMA PORTFOLIOS where there are BUNDLED FEES and the WRAP FEE/SMA sponsor serves as an intermediary between the FIRM and the end user of the investment services. These provisions are not applicable to those FIRMS that manage PORTFOLIOS defined as other types of BUNDLED FEE PORTFOLIOS. These provisions are also not applicable to those FIRMS that provide model PORTFOLIO to WRAP FEE/SMA sponsors, but have no discretionary portfolio management responsibility for individual WRAP FEE/SMA PORTFOLIOS. Similarly, a FIRM or overlay manager in a multiple strategy portfolio or similar program is also excluded from applying these provisions to such PORTFOLIOS if they do not have discretion.

All WRAP FEE/SMA COMPLIANT PRESENTATIONS that include performance results for periods beginning on or after 1 January 2006 are REQUIRED to meet the REQUIREMENTS of the following WRAP FEE/SMA provisions.

#### 8.A WRAP FEE/SMA Composite Construction – Requirements

8.A.1 The ~~firm~~ FIRM ~~must~~ MUST include the performance record of actual ~~wrap fee WRAP FEE/SMA portfolios~~ PORTFOLIOS in appropriate ~~composites~~ COMPOSITES in accordance with the ~~firm’s~~ FIRM’S established ~~portfolio~~ PORTFOLIO inclusion policies. Once established, these ~~composites~~ COMPOSITES (containing actual ~~wrap fee WRAP FEE/SMA portfolios~~ PORTFOLIOS) ~~must~~ MUST be used in the ~~firm’s~~ FIRM’S COMPLIANT PRESENTATIONS ~~presentations to wrap fee WRAP FEE/SMA prospects~~ PROSPECTIVE CLIENTS.

#### 8.A WRAP FEE/SMA Disclosures – Requirements (4.A.10 does not apply)

8.A.2 For all ~~wrap fee WRAP FEE/SMA composite~~ COMPLIANT PRESENTATIONS ~~presentations~~ that include periods prior to the ~~composite~~ COMPOSITE containing an actual ~~wrap fee WRAP FEE/SMA portfolio~~ PORTFOLIO, the ~~firm~~ FIRM ~~must~~ MUST disclose, for each period presented, that the ~~composite~~ COMPOSITE does not contain actual ~~wrap fee WRAP FEE/SMA portfolios~~ PORTFOLIOS (i.e., that 0% or none of the ~~composite~~ COMPOSITE ~~portfolios~~ PORTFOLIOS or assets are ~~wrap fee WRAP FEE/SMA portfolios~~ PORTFOLIOS or assets).

8.A.3 For any performance presented for periods beginning prior to 1 January 2006 that does not comply with the GIPS standards, ~~firms~~ FIRMS ~~must~~ MUST disclose the period of non-compliance.

#### 8.A WRAP FEE Presentation and Reporting – Requirements (5.A.2 does not apply)

8.A.4 When ~~firms~~ FIRMS present performance to a ~~wrap fee WRAP FEE/SMA prospect~~ PROSPECTIVE CLIENT, the ~~composite~~ COMPOSITE presented ~~must include~~ MUST include the performance of all appropriate, actual ~~wrap fee WRAP FEE/SMA portfolios~~ PORTFOLIOS, if any, managed with similar investment objectives and/or strategies, regardless of the ~~wrap fee WRAP FEE/SMA sponsor~~ (resulting in a “style-defined ~~composite~~ COMPOSITE”).

8.A.5 When ~~firms~~ FIRMS present performance to a ~~wrap fee WRAP FEE/SMA prospect~~ PROSPECTIVE CLIENT, performance ~~must~~ MUST be shown net of the entire ~~WRAP FEE~~ wrap fee.

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- 8.A.6 When ~~firms~~FIRMS present ~~composite~~COMPOSITE performance to an existing ~~wrap-fee~~WRAP FEE/SMA sponsor, which includes only that sponsor’s ~~wrap-fee~~WRAP FEE/SMA ~~portfolios~~PORTFOLIOS (resulting in a “sponsor-specific ~~composite~~COMPOSITE”):
- ~~firms~~FIRMS ~~must~~MUST disclose the name of the ~~wrap-fee~~WRAP FEE/SMA sponsor represented by the sponsor-specific composite; and
  - If the sponsor-specific ~~composite~~COMPOSITE ~~presentation~~COMPLIANT PRESENTATION is intended for the purpose of generating ~~wrap-fee~~WRAP FEE/SMA business and does not include performance net of the entire ~~WRAP FEE~~wrap-fee, the ~~presentation~~COMPLIANT PRESENTATION ~~must~~MUST disclose that the named sponsor-specific ~~presentation~~COMPLIANT PRESENTATION is only for the use of the named ~~wrap-fee~~WRAP FEE/SMA sponsor.

**Is it appropriate and/or necessary to include provision 8.A.6, which addresses presenting performance to existing clients, in the GIPS standards?**

**Should firms be allowed to present a “sponsor-specific composite” as opposed to a “style-specific composite”?**

- 8.A.7 ~~firms~~FIRMS may LINK non-GIPS-compliant returns to their compliant history so long as the ~~firms~~FIRMS meet the disclosure REQUIREMENTS for non-compliant performance and only compliant returns are presented for periods after 1 January 2006.

# Global Investment Performance Standards (GIPS®)

## EXPOSURE DRAFT: Section III – Verification

### III. VERIFICATION

VERIFICATION is intended to give both a FIRM and its existing and PROSPECTIVE CLIENTS an added sense of confidence in the FIRM's claim of compliance. VERIFICATION ~~The primary purpose of verification is to establish that a FIRM claiming compliance with the GIPS standards has adhered to the Standards. Verification should will~~ also increase the knowledge of the FIRM's understanding and professionalism of performance measurement teams, as well as the and consistency and quality of its COMPLIANT PRESENTATIONS ~~presentation of performance results.~~ VERIFICATION may also provide improved internal processes and procedures, as well as significant marketing advantages to the FIRM.

The GIPS standards RECOMMEND that FIRMS be verified.

The VERIFICATION ~~verification~~ procedures attempt to strike a balance between ensuring the quality, accuracy, and relevance of performance presentations and minimizing the cost to FIRMS ~~of independent review of performance results. FIRMS SHOULD assess the benefits of improved internal processes and procedures, which are as significant as the marketing advantages of verification.~~

~~The goal of the IPC in drafting the verification procedures is to encourage broad acceptance of verification.~~

~~Verification is strongly encouraged and is expected to become mandatory at a future date. The IPC will re-evaluate all aspects of mandatory verification by 2010 and provide the industry sufficient time to implement any changes.~~

#### A. SCOPE AND PURPOSE OF GIPS VERIFICATION

1. VERIFICATION MUST be performed by a qualified independent third-party.
- ~~1.2.~~ VERIFICATION ~~Verification~~ is intended to determine whether the review of an investment management FIRM'S performance measurement processes and procedures by an independent third party "verifier." ~~Verification tests:~~
  - a. ~~T~~Whether ~~t~~ the FIRM has complied with all the COMPOSITE construction REQUIREMENTS of the GIPS standards on a FIRM-wide basis, and
  - b. ~~Whether~~ t The FIRM'S processes and procedures are designed to calculate and present performance results in compliance with the GIPS standards.
3. A single VERIFICATION REPORT ~~verification report~~ is issued within respect to of the whole FIRM; VERIFICATION ~~verification~~ cannot be carried out on for a single COMPOSITE and, accordingly, does not provide assurance about the performance results of any specific COMPOSITE.
- ~~4.2.~~ VERIFICATION helps to ~~Third party verification~~ brings credibility to the claim of compliance and supports the overall guiding principles of full disclosure and fair representation of a FIRM'S investment performance.
- ~~5.3.~~ The initial minimum period for which VERIFICATION ~~verification~~ can be performed is 1 year (or FIRM inception date through year-end if less than one year) of a FIRM'S presented performance. The RECOMMENDED period over which VERIFICATION ~~verification~~ is performed is that part of the FIRM'S track record for which compliance with the GIPS standards ~~compliance~~ is claimed.
- ~~6.4.~~ A VERIFICATION REPORT MUST ~~opine as to whether verification report must confirm that:~~

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- a. The FIRM has complied with all the COMPOSITE construction REQUIREMENTS of the GIPS standards on a FIRM-wide basis, and
- b. The FIRM'S processes and procedures are designed to calculate and present performance results in compliance with the GIPS standards.

Without such a report from the verifier, the FIRM cannot state that its ~~claim of compliance with the GIPS standards~~ has been verified.

76. A principal verifier may accept the work of a local or previous verifier as part of the basis for the principal verifier's opinion. A principal verifier may also choose to rely on the audit and/or internal control work of a qualified and reputable independent third party. In addition, a principal verifier may choose to rely on the other audit and/or internal control work performed by the VERIFICATION firm. If reliance on another party's work is planned, the scope of work including time period covered, testing results, qualifications, competency, objectivity and reputation MUST be assessed by the principal verifier when making the determination as to whether to place any reliance on such work. Reliance considerations and conclusions MUST be documented by the principal verifier. The principal verifier MUST use professional skepticism when deciding whether to place reliance on work performed by another independent third party.

8. Sample Account Selection: Verifiers ~~MUST~~ must at a minimum subject the entire FIRM to testing when performing VERIFICATION procedures unless reliance is placed on work performed by a qualified and reputable independent third party or appropriate alternative control procedures have been performed by the verifier. ~~obtain a listing of open and closed accounts for all COMPOSITES for the years under examination.~~ Verifiers may use a sampling methodology when performing such procedures. check compliance with the GIPS standards using a selected sample of a FIRM'S accounts. Verifiers are RECOMMENDED to SHOULD consider the following criteria when selecting ~~the sample(s) accounts for examination:~~

- i. Number of COMPOSITES at the FIRM;
- ii. Number of PORTFOLIOS in each COMPOSITE;
- iii. Type ~~Nature~~ of the COMPOSITE;
- iv. Total assets under management;
- v. Internal control structure at the FIRM (system of checks and balances in place);
- vi. Number of years being verified ~~under examination~~; and
- vii. Computer applications, software used in the construction and maintenance of COMPOSITES, the use of external performance measurers, and the method of calculation of performance results.

This list is not all-inclusive and contains only the minimum criteria that are RECOMMENDED SHOULD be used in the selection and evaluation of a sample for testing. For example, one potentially useful approach would be to include in the sample ~~choose~~ a PORTFOLIO ~~for the study sample~~ that has the largest impact on COMPOSITE performance because of its size or because of extremely good or bad performance. Missing or incomplete documents. The lack of explicit record keeping or the presence of errors, would normally may be expected to warrant selecting a larger sample or applying additional VERIFICATION ~~verification~~ procedures.

95. After performing the VERIFICATION ~~verification~~, the verifier may conclude that the FIRM is not in compliance with the GIPS standards or that the records of the FIRM cannot support a complete VERIFICATION ~~verification~~. In such situations, the verifier MUST ~~must~~ issue a statement to the FIRM clarifying why a VERIFICATION REPORT could not be issued. A VERIFICATION REPORT MUST NOT be issued when the verifier knows that the FIRM is not in compliance with the GIPS standards or the records of the FIRM cannot support a complete VERIFICATION. ~~verification report was not possible.~~

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107. The minimum GIPS ~~VERIFICATION~~ ~~verification~~ procedures are described in section III.B Required ~~GIPS VERIFICATION~~ ~~Verification~~ Procedures. The VERIFICATION REPORT MUST state that the VERIFICATION has been conducted in accordance with these VERIFICATION procedures.

**B. REQUIRED GIPS VERIFICATION PROCEDURES**

The following are the minimum procedures that verifiers MUST ~~must~~ follow when conducting a VERIFICATION. ~~verifying an investment FIRM'S compliance with the GIPS standards.~~ Verifiers MUST ~~must~~ follow these procedures, as applicable, prior to issuing a VERIFICATION REPORT ~~verification report~~ to the FIRM:

1. Pre-~~VERIFICATION~~ ~~verification~~ Procedures
  - a. ~~Knowledge of the FIRM: Verifiers must obtain selected samples of the FIRM'S investment performance reports and other available information regarding the FIRM to ensure appropriate knowledge of the FIRM.~~
  - ba. Knowledge of GIPS Standards: Verifiers MUST ~~must~~ understand all the REQUIREMENTS and RECOMMENDATIONS of the GIPS standards, including any updates and ~~information~~ ~~s~~, reports, Guidance ~~S~~ statements, interpretations, and Questions & Answers (Q&As), and clarifications published by CFA Institute and the GIPS Executive Committee ~~Investment Performance Council~~, which will be made available via the GIPSCFA Institute website (www.gipsstandardscfainstitute.org) as well as in the GIPS Handbook. ~~All clarification and update information must be considered when determining a FIRM'S claim of compliance.~~

**Should specific verification procedures be included for GIPS provisions 0.A.16 and 0.A.17?**

- be. Knowledge of the Relevant Regulations ~~Performance Standards:~~ Verifiers ~~must~~ MUST be knowledgeable of ~~country-specific~~ laws and regulations applicable to the FIRM and MUST consider ~~must determine~~ any differences between the GIPS standards and the ~~country-specific~~ laws and regulations.
- ca. Knowledge of the FIRM: Verifiers MUST gain an understanding of the FIRM, including the corporate structure of the FIRM and how it operates. ~~must obtain selected samples of the FIRM'S investment performance reports and other available information regarding the FIRM to ensure appropriate knowledge of the FIRM.~~
- d. Knowledge of FIRM Policies and Procedures: Verifiers MUST understand ~~must determine~~ the FIRM'S assumptions and policies and procedures for establishing and maintaining compliance with all applicable REQUIREMENTS and RECOMMENDATIONS of the GIPS standards. The verifier MUST obtain a copy of the FIRM'S GIPS policies and procedures and ensure that all applicable policies and procedures are properly included and adequately documented. ~~At a minimum, verifiers must determine the following policies and procedures of the FIRM:~~
  - i. ~~Policy with regard to investment discretion. The verifier must receive from the FIRM, in writing, the FIRM'S definition of investment discretion and the FIRM'S guidelines for determining whether accounts are fully discretionary;~~
  - ii. ~~Policy with regard to the definition of COMPOSITES according to investment strategy. The verifier must obtain the FIRM'S list of COMPOSITE DEFINITIONS with written criteria for including accounts in each COMPOSITE;~~
  - iii. ~~Policy with regard to the timing of inclusion of new accounts in the COMPOSITES;~~

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- ~~iv. Policy with regard to timing of exclusion of closed accounts in the COMPOSITES;~~
      - ~~v. Policy with regard to the accrual of interest and dividend income;~~
      - ~~vi. Policy with regard to the market valuation of investment securities;~~
      - ~~vii. Method for computing the TIME WEIGHTED RATE OF RETURN for the portfolio;~~
      - ~~viii. Assumptions on the timing of capital inflows/outflows;~~
      - ~~ix. Method for computing COMPOSITE returns~~
      - ~~x. Policy with regard to the presentation of COMPOSITE returns;~~
      - ~~xi. Policies regarding timing of implied taxes due on income and realized capital gains for reporting performance on an after-tax basis;~~
      - ~~xii. Policies regarding use of securities/countries not included in a COMPOSITE'S BENCHMARK;~~
      - ~~xiii. Use of leverage and other derivatives; and~~
      - ~~xiv. Any other policies and procedures relevant to performance presentation.~~
    - e. Knowledge of Valuation Basis and for Performance Calculations: Verifiers MUST ~~must ensure that they~~ understand the methodologies, ~~and~~ policies and procedures used to ~~record~~ value PORTFOLIOS and compute investment performance. ~~ation information for performance calculation purposes. In particular, verifiers must determine that:~~
      - ~~i. The FIRM'S policy on classifying fund flows (e.g., injections, disbursements, dividends, interest, fees, and taxes) is consistent with the desired results and will give rise to accurate returns;~~
      - ~~ii. The FIRM'S accounting treatment of income, interest, and dividend receipts is consistent with cash account and cash accruals definitions;~~
      - ~~iii. The FIRM'S treatment of taxes, tax reclaims, and tax accruals is correct and the manner used is consistent with the desired method (i.e., gross or net of tax return);~~
      - ~~iv. The FIRM'S policies on recognizing purchases, sales, and the opening and closing of other positions are internally consistent and will produce accurate results; and~~
      - ~~v. The FIRM'S accounting for investments and derivatives is consistent with the GIPS standards.~~
2. VERIFICATION ~~erification~~ Procedures
- a. Definition of the FIRM: Verifiers must perform sufficient procedures to conclude whether ~~determine that~~ the FIRM is, and has been, appropriately defined.
  - b. Fundamentals of Compliance ~~COMPOSITE Construction.~~ Verifiers MUST perform sufficient procedures to determine ~~must be satisfied~~ that:
    - i. The FIRM has defined and maintained COMPOSITES according to ~~reasonable guidelines~~ in compliance with the GIPS standards and consistent with its policies and procedures;
    - ii. All of the FIRM'S actual discretionary fee-paying PORTFOLIOS are included in at least one COMPOSITE;
    - iii. The FIRM'S definition of discretion has been consistently applied over time;
    - iv. At all times, all accounts are included in their respective COMPOSITES and no accounts that belong in a particular COMPOSITE have been excluded;
    - v. The COMPOSITE BENCHMARK is ~~S are~~ consistent with the investment style, strategy, or objective of the COMPOSITE ~~COMPOSITE DEFINITIONS~~ and has ~~ve~~ been consistently applied over time;
    - vi. The FIRM'S policies and procedures ~~guidelines~~ for creating and maintaining

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- COMPOSITES have been consistently applied; ~~and~~
- vii. The FIRM'S list and description of COMPOSITES is complete; and
  - viii. TOTAL FIRM ASSETS are appropriately calculated and disclosed.
- c. Determination of Discretionary Status of ~~Nondiscretionary~~ Accounts. Verifiers MUST ~~must~~ obtain a listing of -all FIRM PORTFOLIOS and determine on a sample ~~ing~~ basis whether the FIRM'S manager's classification of the account as discretionary or nondiscretionary is appropriate by referring to the account's advisory agreement ~~or investment guidelines~~ and the FIRM'S policies and procedures ~~written guidelines~~ for determining investment discretion.
- d. Allocation of Accounts to COMPOSITES ~~This list is not all-inclusive and contains only the minimum criteria that SHOULD be used in the selection and evaluation of a sample for testing. For example, one potentially useful approach would be to choose a PORTFOLIO for the study sample that has the largest impact on COMPOSITE performance because of its size or because of extremely good or bad performance. The lack of explicit record keeping or the presence of errors may warrant selecting a larger sample or applying additional verification procedures.~~
- e. Account Review: For selected accounts, verifiers MUST perform sufficient testing to be satisfied that: ~~must determine:~~
- i. ~~i. Whether t~~ The timing of the initial inclusion in the COMPOSITE is in accordance with policies and procedures of the FIRM. Verifiers MUST obtain a listing of all open accounts for all COMPOSITES for the years being verified in conjunction with this testing;
  - ii. ~~Whether t~~ The timing of exclusion from the COMPOSITE is in accordance with policies and procedures of the FIRM for closed accounts. Verifiers MUST obtain a listing of all closed accounts for all COMPOSITES for the years being verified in conjunction with this testing;
  - iii. ~~Whether t~~ The objectives set forth in the account agreement are consistent with the FIRM'S manager's COMPOSITE DEFINITION as indicated by the account agreement, PORTFOLIO summary, and COMPOSITE DEFINITION ~~or other appropriate documented evidence;~~
  - iv. PORTFOLIOS are completely and accurately included in COMPOSITES by tracing selected accounts from a) account agreements to the COMPOSITES and b) COMPOSITES to account agreements ~~The existence of the accounts by tracing selected accounts from account agreements to the COMPOSITES;~~
  - v. ~~That a~~ All PORTFOLIOS sharing the same investment guidelines are included in the same COMPOSITE; and
  - vi. Movements ~~That shifts~~ from one COMPOSITE to another are consistent with the investment guidelines set forth by the specific account agreement or with documented guidelines of the FIRM'S clients.
- e. Data Review: For selected accounts, verifiers MUST perform sufficient testing in each of the following areas to be satisfied that the policy adopted by the FIRM is in accordance with the GIPS standards, and the treatment of these items is consistent with the FIRM'S policy: ~~Performance Calculations: Verifiers must ensure that they understand the methods and policies used to record valuation information for performance calculation purposes. In particular, verifiers must determine that:~~
- i. Classification of PORTFOLIO ~~The FIRM'S policy on classifying fund flows (e.g., injections, disbursements, dividends, interest, fees, and taxes) is consistent with the desired results and will give rise to accurate returns;~~
  - ii. The FIRM'S accounting treatment of income, interest, and dividend accruals and receipts ~~is consistent with cash account and cash accruals~~

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definitions;

- iii. ~~The FIRM'S treatment of taxes, tax reclaims, and tax accruals is correct and the manner used is consistent with the desired method (i.e., gross or net of tax return);~~
- iv. Accounting treatment of ~~The FIRM'S policies on recognizing~~ purchases, sales, and the opening and closing of other positions ~~are internally consistent and will produce accurate results;~~ and
- v. Accounting and valuation methodology ~~The FIRM'S accounting for~~ investments, including ~~and~~ derivatives ~~is consistent with the GIPS standards.~~

f. Performance Measurement Calculation: Recognizing that VERIFICATION does not provide assurance that specific COMPOSITE returns are correctly calculated and presented, Verifiers MUST be satisfied that the FIRM has calculated and presented performance in accordance with the documented policies and procedures adopted by the FIRM. Verifiers MUST, at a minimum, perform the following procedures unless reliance is placed on work performed by an appropriate independent third party or appropriate alternative control procedures have been performed by the verifier: ~~Verifiers must determine whether the FIRM has computed performance in accordance with the policies and assumptions adopted by the FIRM and disclosed in its presentations. In doing so, verifiers SHOULD:~~

- i. Recalculate rates of return for a sample of accounts in the FIRM, determine that using an acceptable return formula as prescribed by the GIPS standards (e.g., TIME-WEIGHTED RATE OF RETURN); is utilized, and determine that the FIRM'S treatment is in accordance with the FIRM'S policies and procedures. The verifier MUST also determine that any fees and expenses are accounted for in accordance with the GIPS standards, and are treated in accordance with the FIRM'S policies and procedures; and
  - ii. Take a ~~reasonable~~ sample of COMPOSITE calculations to determine ~~assure themselves of~~ the accuracy of all required numerical data ~~the asset weighting of returns, the geometric linking of returns to produce annual rates of returns, and the calculation of the DISPERSION of individual returns around the aggregate COMPOSITE return.~~
- g. COMPLIANT PRESENTATIONS Disclosures: Verifiers MUST test ~~must review~~ a sample of COMPLIANT PRESENTATIONS ~~COMPOSITE presentations~~ to determine ~~ensure~~ that the presentations include all the information and disclosures REQUIRED by the GIPS standards. The information and disclosures MUST be consistent with the FIRM'S records, documented policies and procedures, and the verifier's testing results.
- h. Maintenance of Records: The verifier MUST ~~must~~ maintain sufficient documentation ~~information~~ to support all procedures performed supporting the issuance of the VERIFICATION REPORT including all significant judgments and conclusions made by the verifier. ~~the verification report.~~
- i. Representation Letter: The verifier MUST ~~must~~ obtain a representation letter from the ~~client~~ FIRM confirming ~~major~~ policies and procedures are as described in the policies and procedures document, and have been consistently applied throughout the period under review. The representation letter MUST confirm that the FIRM complies with the GIPS standards for the period verified. The representation letter MUST also contain any other specific representations made to the verifier during the VERIFICATION examination.

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**C. GIPS PERFORMANCE EXAMINATIONS**  
**~~EXAMINATIONS OF INVESTMENT PERFORMANCE PRESENTATIONS~~**

Separate from a GIPS VERIFICATION~~verification~~, a FIRM may choose to have a further, more extensive, specifically focused examination (GIPS PERFORMANCE EXAMINATION or PERFORMANCE EXAMINATION~~or performance audit~~) of a specific COMPOSITE COMPLIANT PRESENTATION~~presentation~~.

VERIFICATION cannot be carried out on a COMPOSITE and does not provide assurance about the results of any specific COMPOSITE. FIRMS cannot ~~state~~ ~~make any claim~~ that a particular COMPOSITE COMPLIANT PRESENTATION ~~has been independently examined with respect to the GIPS standards unless the verifier has also followed the GIPS verification procedures set forth in section III.B.~~ ~~FIRMS cannot state that a particular COMPOSITE presentation~~ has been “GIPS verified” or make any claim to that ~~effect~~. GIPS VERIFICATION~~verification~~ relates only to FIRM-wide VERIFICATION~~verification~~. ~~FIRMS can make a claim of verification only after a verifier has issued a GIPS verification report.~~

To ~~state~~~~assert~~ a VERIFICATION REPORT ~~verification report~~ has been received, a PERFORMANCE EXAMINATION ~~detailed examination~~ of a COMPOSITE COMPLIANT PRESENTATION~~presentation~~ is not REQUIRED. ~~Examinations of this type are unlikely to become a REQUIREMENT of the GIPS standards or become mandatory.~~ Please see the Guidance Statement on GIPS PERFORMANCE EXAMINATIONS for additional guidance.

# Global Investment Performance Standards (GIPS®)

## EXPOSURE DRAFT: Appendix C – GIPS Advertising Guidelines

### A. PURPOSE OF THE GIPS ADVERTISING GUIDELINES

~~The Global Investment Performance Standards provide the investment community with a set of ethical standards for FIRMS to follow when presenting their performance results to potential clients. The Standards serve to provide greater uniformity and comparability among investment managers without regard to geographical location and to facilitate a dialogue between FIRMS and their prospective clients about the critical issues of how the FIRM achieved historical performance results and determines future investment strategies.~~

The GIPS Advertising Guidelines attempt to serve as industry global best practice for the advertisement of performance results. The GIPS Advertising Guidelines do not replace the GIPS standards nor do they absolve FIRMS from presenting ~~performance presentations~~ a COMPLIANT PRESENTATION as REQUIRED by the GIPS standards, ~~that adhere to the REQUIREMENTS of the full GIPS standards~~. The guidelines only apply to FIRMS that already satisfy all the REQUIREMENTS of the Standards on a FIRM-wide basis and claim compliance with the Standards in an advertisement. FIRMS that choose to claim compliance in an advertisement MUST ~~can choose to advertise that claim follow using~~ the GIPS Advertising Guidelines or include a COMPLIANT PRESENTATION in the advertisement.

~~The guidelines are mandatory for FIRMS that include a claim of compliance with the GIPS Advertising Guidelines in their advertisements. The guidelines are voluntary for FIRMS that do not include a claim of compliance in their advertisements. All FIRMS are encouraged to abide by these ethical guidelines.~~

#### Definition of Advertisement

For the purposes of these guidelines, an advertisement includes any materials that are distributed to or designed for use in newspapers, magazines, FIRM brochures, letters, media, websites, or any other written or electronic material addressed to more than one ~~prospective client~~ PROSPECTIVE CLIENT. Any written material ~~(, other than one-on-one presentations and individual client reporting.)~~ distributed to maintain existing clients or solicit new clients for an advisor is considered an advertisement.

#### Relationship of GIPS Advertising Guidelines to Regulatory Requirements

~~The GIPS Advertising Guidelines are guidelines that promote an ethical framework for advertisements. They do not change the scope of the activities of local regulatory bodies regarding the regulation of advertisements.~~ FIRMS advertising performance results MUST also adhere to all applicable regulatory rules and requirements governing advertisements. FIRMS are encouraged to seek legal or regulatory counsel because it is likely that additional disclosures are REQUIRED. In cases where applicable law or regulation conflicts with the GIPS Advertising Guidelines, ~~the guidelines REQUIRE~~ FIRMS are REQUIRED to comply with the law or regulation. ~~FIRMS MUST disclose any conflicts between laws/regulations and the GIPS Advertising Guidelines.~~

The calculation and advertisement of pooled unitized products, such as mutual funds and open-ended investment companies, are regulated in most markets. These A advertising G guidelines are not intended to replace ~~the applicable~~ regulations when a FIRM is advertising performance solely for a-pooled unitized products.

~~However, should a GIPS-compliant FIRM choose to advertise performance results, the FIRM MUST apply all applicable laws and regulations as well as the GIPS Advertising Guidelines in order to include a claim of compliance with the GIPS standards~~

#### Other Information

FIRMS may include other information beyond what is REQUIRED under the GIPS Advertising Guidelines, provided the information is shown with equal or lesser prominence to the information REQUIRED by the GIPS Advertising Guidelines and does not conflict with the GIPS standards and/or the GIPS Advertising Guidelines. FIRMS MUST adhere to the principles of fair representation and full disclosure when creating an advertisement.

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**EXPOSURE DRAFT: Appendix C – GIPS Advertising Guidelines**

**B. REQUIREMENTS OF THE GIPS ADVERTISING GUIDELINES**

All advertisements that include a claim of compliance with the GIPS standards by following the GIPS Advertising Guidelines MUST ~~include~~ disclose the following:

1. The ~~A description of the~~ definition of the FIRM.
2. How a ~~prospective client~~ PROSPECTIVE CLIENT ~~is an interested party~~ can obtain a COMPLIANT PRESENTATION ~~presentation that complies with the REQUIREMENTS of GIPS standards~~ and/or a complete list and description of ~~all~~ the FIRM'S COMPOSITES.
3. The GIPS ~~Advertising Guidelines~~ compliance statement for advertisements. The compliance statement MUST remain in a single paragraph.

For FIRMS that are currently verified:

[Insert name of FIRM] claims compliance with the Global Investment Performance Standards (GIPS®). [Insert name of FIRM] has been independently verified for the periods [insert dates]. A copy of the verification report(s) is/are available upon request.

For FIRMS that have been verified, but are not currently verified:

[Insert name of FIRM] claims compliance with the Global Investment Performance Standards (GIPS®). [Insert name of FIRM] has been independently verified for the periods [insert dates]. The FIRM is not currently independently verified.

For purposes of this provision, a VERIFICATION is considered current if the VERIFICATION REPORT covers a period ending not more than 24 months ago.

For FIRMS that have not been verified:

[Insert name of FIRM] claims compliance with the Global Investment Performance Standards (GIPS®). [Insert name of FIRM] has not been independently verified.

All advertisements that include a claim of compliance with the GIPS standards by following ~~with~~ the GIPS Advertising Guidelines and that present performance results MUST also ~~include~~ disclose the following information. T ~~(the relevant information MUST be taken or derived from a COMPLIANT PRESENTATION presentation that adheres to the REQUIREMENTS of the GIPS standards):~~

3.4. The COMPOSITE DESCRIPTION ~~A description of the strategy of the COMPOSITE being advertised.~~

5. ~~Period-to-date~~ COMPOSITE performance results according to one of the following: ~~in addition to either:~~

a. 1-, 3-, and 5-year annualized COMPOSITE returns through the most recent period with the end-of period date clearly identified. If the COMPOSITE has been in existence for less than 5 years, FIRMS MUST also present the annualized returns since inception of the COMPOSITE. (For example, if a COMPOSITE has been in existence for 4 years, FIRMS MUST present 1-, 3-, and 4-year annualized returns through the most recent period). Periods of less than 1 year MUST NOT be annualized.

a.b. Period-to-date COMPOSITE returns in addition to 1-, 3-, and 5-year ~~cumulative~~ annualized COMPOSITE returns through the same period of time as presented in the corresponding COMPLIANT PRESENTATION with the end-of period date clearly identified ~~(or annualized period since COMPOSITE inception if inception is greater than 1 and less than 5 years)~~. If the COMPOSITE has been in existence for less than 5 years, FIRMS MUST also present the annualized returns since inception of the COMPOSITE (For example, if a COMPOSITE has been

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in existence for 4 years, FIRMS MUST present 1-, 3-, and 4-year annualized returns in addition to the period-to-date COMPOSITE return. ~~Periods of less than 1 year are not permitted to~~ MUST NOT be annualized. ~~The annualized returns MUST be calculated through the same period of time as presented in the corresponding compliant presentation;~~

- c. Period-to-date COMPOSITE returns in addition to 5 years of annual COMPOSITE returns with the end-of-period date clearly identified (or since COMPOSITE inception if inception is less than 5 years). The annual returns MUST be calculated through the same period of time as presented in the corresponding COMPLIANT PRESENTATION ~~compliant presentation.~~

~~4.6.~~ Whether performance is shown ~~gross~~ GROSS-OF-FEES and/or ~~net~~ NET-OF-FEES ~~of INVESTMENT MANAGEMENT FEES.~~

~~5.7.~~ The ~~BENCHMARK~~ TOTAL RETURN for the BENCHMARK for the same periods for which the COMPOSITE return is presented and a description of that BENCHMARK. ~~(The appropriate COMPOSITE BENCHMARK return is the same BENCHMARK TOTAL RETURN as presented in the corresponding GIPS-compliant presentation.)~~ FIRMS MUST present TOTAL RETURNS for the same BENCHMARK as presented in the corresponding COMPLIANT PRESENTATION. If the FIRM determines no appropriate BENCHMARK for the COMPOSITE exists, the FIRM ~~is presented, the advertisement~~ MUST disclose why no BENCHMARK is presented.

~~6.8.~~ The currency used to express ~~returns~~ performance.

~~7.9.~~ ~~The description of~~ The presence, use, and extent of leverage, and derivatives, and/or short positions, if material, including a description of the frequency of use and characteristics of the instruments sufficient to identify risks, if leverage or derivatives are used as an active part of the investment strategy (i.e., not merely for efficient PORTFOLIO management) of the COMPOSITE. Where leverage/derivatives do not have a material effect on returns, no disclosure is REQUIRED

~~8.10.~~ ~~When presenting noncompliant~~ For any performance presented information ~~for periods prior to 1 January 2000 in an advertisement that does not comply with the GIPS standards, FIRMS MUST disclose the period(s) of non-compliance, and which specific information is not compliant as well as provide the reason(s) the information is not in compliance with the GIPS standards.~~

11. If the advertisement conforms with laws and regulations that conflict with the GIPS standards and/or the GIPS Advertising Guidelines, FIRMS MUST disclose this fact and the manner in which the laws and regulations conflict with the GIPS standards and/or the GIPS Advertising Guidelines.

**Additional and Supplemental Information**

~~FIRMS are encouraged to present SUPPLEMENTAL INFORMATION or ADDITIONAL INFORMATION (in addition to the information REQUIRED under the GIPS Advertising Guidelines) provided the SUPPLEMENTAL INFORMATION is clearly labeled as such and shown with equal or lesser prominence than the information REQUIRED under the guidelines. Where such SUPPLEMENTAL INFORMATION is included for noncompliant periods, these periods MUST be disclosed together with an explanation of which information is not compliant and why it is not in compliance with the GIPS standards.~~

~~SUPPLEMENTAL and ADDITIONAL INFORMATION is the subject of the “Guidance Statement on the Use of Supplemental Information” and users should refer to that guidance for further clarification on how to disclose such data.~~

**Global Investment Performance Standards (GIPS®)**  
***EXPOSURE DRAFT: Appendix D – GIPS Valuation Principles***

**INTRODUCTION**

FAIR VALUE has now been adopted in a significant number of jurisdictions and is mandatory under the GIPS standards. FIRMS claiming compliance with the GIPS standards MUST adhere to the REQUIREMENTS and SHOULD apply the RECOMMENDATIONS below. The shift to a broader FAIR VALUE REQUIREMENT has implications for all FIRMS claiming compliance with the GIPS standards.

The concept of FAIR VALUE has been addressed by the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB), as well as other organizations. The Valuation Principles are drawn from the existing IASB and FASB definitions and guidance relating to FAIR VALUE.

While some FIRMS may utilize external third parties to value investments, the FIRM retains its responsibility for compliance with the GIPS standards, including the GIPS Valuation Principles.

**Do you agree with the requirements and recommendations in the GIPS Valuation Principles below?**

**FAIR VALUE DEFINITION**

FAIR VALUE is defined as the amount at which an asset could be exchanged in a current arm's length transaction between willing parties in which the parties each acted knowledgeably, prudently, and without compulsion.

**VALUATION REQUIREMENTS AND RECOMMENDATIONS**

1. For periods beginning on or after 1 January 2011, PORTFOLIOS MUST be valued at FAIR VALUE. (Provision 1.A.2)
2. FIRMS MUST comply with all applicable laws and regulations regarding the calculation and reporting of returns. (Provision 0.A.16) Therefore, FIRMS MUST assess their current obligations relating to FAIR VALUE.
3. If the COMPLIANT PRESENTATION conforms with laws and regulations that differ from the REQUIREMENTS of the GIPS standards, FIRMS MUST disclose this fact and disclose the manner in which the laws and regulations conflict with the GIPS standards. (Provision 4.A.9)
4. FIRMS MUST document their policies and procedures used in establishing and maintaining compliance with the GIPS standards. (Provision 0.A.6) Consequently, FIRMS MUST document their valuation policies, procedures, and methodologies. Any change in the valuation methodologies or assumptions MUST be documented in the FIRM'S valuation policies and procedures.
5. FIRMS MUST disclose that information regarding policies for valuing PORTFOLIOS, calculating and reporting returns, and preparing COMPLIANT PRESENTATIONS is available upon request. (Provision 4.A.17)
6. The valuation MUST represent the observable market price of investments or, in the absence of a readily observable appropriate market price, MUST represent management's best estimate of the market price prepared using market-based inputs.
7. The following hierarchy MUST be incorporated into the valuation process when determining FAIR VALUE for PORTFOLIO investments. Valuations MUST be:
  - a. Objective, observable, unadjusted quoted market prices in active markets for identical investments on the measurement date. If not available, then FIRMS MUST use:

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- b. Objective, observable quoted market prices for similar investments in active markets, If not available, then FIRMS MUST use;
  - c. Quoted prices for identical or similar investments in markets that are not active (markets in which there are few transactions for the investment, the prices are not current, or price quotations vary substantially over time or market makers). If not available, then FIRMS MUST use;
  - d. Market-based inputs other than quoted prices which are observable for the investment. If not available, then FIRMS MUST use;
  - e. Subjective, unobservable inputs for the investments where markets are not active at the measurement date. Unobservable inputs SHOULD only be used to measure FAIR VALUE to the extent that observable inputs and prices are not available. Unobservable inputs reflect the FIRM'S own assumptions about the assumptions that market participants would use in pricing the investment and MUST be developed based on the best information available under the circumstances.
8. FIRMS MUST disclose if PORTFOLIO investments are valued using subjective unobservable inputs that are material to the COMPOSITE as of each period end.
9. If a change in valuation methodology gives rise to a material change in the valuation, the description and the effect of the change SHOULD be disclosed.
10. FIRMS SHOULD disclose the key assumptions used to value investments. (Provision 4.B.2)
11. FAIR VALUES SHOULD be obtained from a qualified independent external third party. (Provision 1.B.1)

**REQUIREMENTS AND RECOMMENDATIONS SPECIFIC TO REAL ESTATE**

The following are valuation REQUIREMENTS and RECOMMENDATIONS that apply to REAL ESTATE. Unless otherwise noted, the valuation REQUIREMENTS AND RECOMMENDATIONS related to REAL ESTATE supplement all of the REQUIRED and RECOMMENDED elements of the main GIPS Valuation Principles (not including the PRIVATE EQUITY valuation REQUIREMENTS and RECOMMENDATIONS below).

12. The external valuation process MUST adhere to practices of the relevant valuation governing body (for example, RICS Valuation Standards (Red Book), the Appraisal Institute National Uniform Standards of Professional Appraisal Practice (USPAP), or International Valuation Standards (IVS)).
13. The FIRM MUST NOT use appraisals where the valuer's or appraiser's fee is contingent upon the appraised asset value.
14. REAL ESTATE investments MUST be valued by an independent external PROFESSIONALLY DESIGNATED, CERTIFIED, OR LICENSED COMMERCIAL PROPERTY VALUER / APPRAISER at least once every 36 months. For periods beginning on or after 1 January 2012, REAL ESTATE investments MUST be valued by an independent external, PROFESSIONALLY DESIGNATED, CERTIFIED, OR LICENSED COMMERCIAL PROPERTY VALUER/APPRAISER at least once every 12 months. In markets where neither professionally designated nor appropriately sanctioned valuers or appraisers are available and valuers or appraisers from other countries bearing such credentials do not commonly operate, then the FIRM MUST take necessary steps to ensure that only well-qualified independent property valuers or appraisers are used. (Provision 6.A.2) Supersedes general principle number 11 above.
15. The FIRM MUST disclose the valuation methodologies (e.g., discounted cash flow valuation model, capitalized income approach, sales comparison approach, the valuation of debt payable in

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determining the value of leveraged REAL ESTATE) and material changes to valuation methodologies. (Provision 6.A.8.b) Supersedes general principle number 9 above.

16. For periods beginning on or after 1 January 2012, FIRMS must explain and disclose the impact of material differences between: (Provision 6.A.8.c)
  - a. The valuation used in performance reporting and the valuation used in financial reporting.
  - b. The EXTERNAL VALUATION and the valuation used in performance reporting.
17. FIRMS MUST disclose the percent of total FAIR VALUE of COMPOSITE assets valued using an EXTERNAL VALUATION to total FAIR VALUE of COMPOSITE assets. (Provision 6.A.8.e)
18. For periods beginning prior to 1 January 2012, FIRMS MUST disclose the frequency REAL ESTATE investments are valued by external valuers or appraisers. (Provision 6.A.8.f)
19. Although appraisal standards may allow for a range of estimated values, it is RECOMMENDED that a single value be obtained from external valuers or appraisers because only one amount is used in performance reporting.
20. It is RECOMMENDED that the external appraisal firm be rotated every three to five years.
21. For periods beginning prior to 1 January 2012, REAL ESTATE investments SHOULD be valued by an independent external PROFESSIONALLY DESIGNATED, CERTIFIED, OR LICENSED COMMERCIAL PROPERTY VALUER/APPRaiser at least once every 12 months. (Provision 6.B.1)
22. FIRMS SHOULD disclose the basis of accounting for the PORTFOLIOS in the COMPOSITE (e.g. US GAAP, IFRS or other basis of accounting). (Provision 6.B.3)

**REQUIREMENTS AND RECOMMENDATIONS SPECIFIC TO PRIVATE EQUITY**

Prior to 1 January 2011, the GIPS standards recommended FAIR VALUE for PRIVATE EQUITY investments. The following REQUIREMENTS and RECOMMENDATIONS apply to the valuation of PRIVATE EQUITY investments other than PRIVATE EQUITY OPEN-END and EVERGREEN FUNDS which MUST follow the main GIPS Valuation Principles above, and CLOSED-END REAL ESTATE FUNDS which MUST follow the valuation REQUIREMENTS and RECOMMENDATIONS related to REAL ESTATE. The valuation REQUIREMENTS and RECOMMENDATIONS related to PRIVATE EQUITY supplement all of the REQUIRED and RECOMMENDED elements of the main GIPS Valuation Principles (not including the REAL ESTATE valuation REQUIREMENTS and RECOMMENDATIONS) above.

23. The selection of the valuation methodology MUST be the most appropriate for a particular investment based on the nature, facts and circumstances of the investment.
24. FIRMS MUST disclose the valuation methodologies used to value PRIVATE EQUITY investments. If any material change in valuation methodologies occurred, the change MUST be disclosed. (Provision 7.A.13)
25. If the COMPLIANT PRESENTATION complies with valuation guidelines in addition to the GIPS Valuation Principles, FIRMS MUST disclose which guidelines have been used. (Provision 7.A.14)
26. FIRMS MUST disclose if a valuation basis other than FAIR VALUE was used for periods beginning prior to 1 January 2011. (Provision 7.A.16)
27. FIRMS MUST explain and disclose the impact of material differences between the valuation used in performance reporting and the valuation used in financial reporting at period end. (Provision 7.A.17)

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28. The following considerations SHOULD be incorporated into the valuation process:

- a. The quality and reliability of the data used in each methodology;
- b. The comparability of enterprise or transaction data;
- c. The stage of development of the enterprise; and
- d. Any additional considerations unique to the enterprise.

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### EXPOSURE DRAFT: Appendix E – GIPS Glossary

**ACCRUAL ACCOUNTING** The system of recording financial transactions as they come into existence as a legally enforceable claim, rather than when they are paid (i.e., settle).

**ADDITIONAL INFORMATION** Information that is ~~REQUIRED or RECOMMENDED~~ under the GIPS standards and is not considered as ~~“SUPPLEMENTAL INFORMATION”~~; ~~for the purposes of compliance.~~

**ADMINISTRATIVE FEES** All fees other than TRADING EXPENSES and the INVESTMENT MANAGEMENT FEE. ADMINISTRATIVE FEES include CUSTODY FEES, accounting fees, auditing fees, consulting fees, legal fees, performance measurement fees, or other related fees. These ADMINISTRATIVE FEES are typically outside the control of the ~~investment management~~ FIRM and are not included in either the GROSS-OF-FEES RETURN or the NET-OF-FEES return. However, there are some markets and investment vehicles where ADMINISTRATIVE FEES ~~are~~ may be controlled by the FIRM. (See the term “BUNDLED FEE.”)

**ALL-IN-FEE** A type of BUNDLED FEE that can include any combination of INVESTMENT MANAGEMENT FEES, TRADING EXPENSES, CUSTODY FEES, and ADMINISTRATIVE FEES. ALL-IN-FEES are client-specific and typically offered by banks in certain jurisdictions where the asset management, brokerage, and custody services are part of the same company.

**AMOUNT REALIZED (PRIVATE EQUITY)** Proceeds obtained from the liquidation of investments.

**BENCHMARK** An independent rate of return (or hurdle rate) ~~forming an objective test of the effective implementation of~~ against which the performance and/or risk of an investment strategy is compared. The BENCHMARK MUST reflect the investment strategy or mandate represented by the COMPOSITE, or the target return.

**BUNDLED FEE** A fee that combines multiple fees into one total or “bundled” fee. BUNDLED FEES can include any combination of INVESTMENT MANAGEMENT FEE ~~management~~, TRADING EXPENSES ~~transaction~~, CUSTODY FEES ~~custody~~, and ~~other~~ ADMINISTRATIVE FEES. Two specific examples of BUNDLED FEES are ~~the wrap fee~~ WRAP FEES and the ALL-IN-FEES ~~all-in fee~~.

~~**All-In Fee**—Due to the universal banking system in some countries, asset management, brokerage, and custody are often part of the same company. This allows banks to offer a variety of choices to customers regarding how the fee will be charged. Customers are offered numerous fee models in which fees may be bundled together or charged separately. All in fees can include any combination of INVESTMENT MANAGEMENT, TRADING EXPENSES, CUSTODY, and other ADMINISTRATIVE FEES.~~

~~**Wrap Fee**—Wrap fees are specific to a particular investment product. The U.S. Securities and Exchange Commission (SEC) defines a wrap fee account (now more commonly known as a separately managed account or SMA) as “any advisory program under which a specified fee or fees not based upon transactions in a client’s account is charged for INVESTMENT ADVISORY services (which may include PORTFOLIO management or advice concerning the selection of other investment advisers) and execution of client transactions.” A typical separately managed account has a contract or contracts (and fee) involving a sponsor (usually a broker or independent provider) acting as the INVESTMENT ADVISOR, an investment management firm typically as the subadvisor, other services (custody, consulting, reporting, performance, manager selection, monitoring, and execution of trades), distributor, and the client (brokerage customer). Wrap fees can be all inclusive, assetbased fees (which may include any combination of management, transaction, custody, and other ADMINISTRATIVE FEES).~~

**CAPITAL EMPLOYED (REAL ESTATE)** The denominator of the return calculations, expressions, defined as the “weighted-average equity” (weighted-average capital) during the measurement period.

**CAPITAL EMPLOYED** ~~SHOULD~~ does not include any income or CAPITAL RETURN accrued during the measurement period. Beginning capital is adjusted by weighting the cash flows (contributions and distributions) that occurred during the period. ~~Cash flows are typically weighted based on the actual days the flows are in or out of the PORTFOLIO.~~ Other weighting methods are acceptable; however, once a

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~~methodology is chosen, it SHOULD be consistently applied.~~

**CAPITAL RETURN (REAL ESTATE)** The change in the MARKET FAIR VALUE of the REAL ESTATE investments and cash and/or cash equivalent assets held throughout the measurement period (ENDING MARKET FAIR VALUE less beginning MARKET FAIR VALUE) adjusted for all capital expenditures (subtracted) and the net proceeds from sales (added). The return is computed as a percentage of the CAPITAL EMPLOYED through the measurement period. ~~Synonyms:~~ Also known as capital appreciation return or appreciation return.

**CARRIED INTEREST (PRIVATE EQUITY and REAL ESTATE)** The profits that GENERAL PARTNERS ~~earn~~ are allocated (either accrued or received) from the profits of the investments made by the fund ~~(generally 20-25%)~~. Also known as “carry” or “promote”.

**CARVE-OUT:** A ~~single or multiple asset class segment of a multiple asset class~~ portion of a PORTFOLIO that is by itself representative of a distinct investment strategy.

**CLOSED-END FUND (PRIVATE EQUITY and REAL ESTATE)** A type of investment fund where the number of investors and the total COMMITTED CAPITAL is fixed, ~~and is~~ not open for subscriptions and/or redemptions, and there is a capital call (DRAWDOWN) process in place that is controlled by the GENERAL PARTNER.

**COMMITTED CAPITAL (PRIVATE EQUITY and REAL ESTATE)** Pledges of capital to a ~~VENTURE CAPITAL-PRIVATE EQUITY or REAL ESTATE~~ fund by the LIMITED PARTNERS and the GENERAL PARTNER. This money is typically not received at once but drawn down over three to five years, starting in the year the fund is formed. Also known as “commitments.”

**COMPLIANT PRESENTATION:** A presentation for a COMPOSITE that contains all information required by the GIPS standards and may also include ADDITIONAL INFORMATION or SUPPLEMENTAL INFORMATION.

**COMPOSITE** Aggregation of individual PORTFOLIOS ~~representing~~ managed according to a similar investment mandate, objective, or strategy.

**COMPOSITE CREATION DATE** The date when the FIRM first groups the PORTFOLIOS to create a COMPOSITE. The COMPOSITE CREATION DATE is not necessarily the earliest date for which performance is reported for the COMPOSITE. (See COMPOSITE INCEPTION DATE.)

**COMPOSITE DEFINITION** Detailed criteria that determine the allocation of portfolios to COMPOSITES. COMPOSITE DEFINITIONS MUST be documented in the FIRM’S policies and procedures.

**COMPOSITE DESCRIPTION** General information regarding the strategy of the COMPOSITE. A description may be more abbreviated than the COMPOSITE DEFINITION but includes all salient key features of the COMPOSITE and MUST include enough information to allow a PROSPECTIVE CLIENT to understand the key characteristics of the COMPOSITE strategy, including risks.

**COMPOSITE INCEPTION DATE** The earliest date for which performance is reported for the COMPOSITE in a COMPLIANT PRESENTATION. The COMPOSITE INCEPTION DATE is not necessarily the date the PORTFOLIOS are grouped together to create a COMPOSITE. Instead, it is the initial date of the performance record. (See COMPOSITE CREATION DATE.)

**CUSTODY FEES** The fees payable to the custodian for the safekeeping of ~~the~~ PORTFOLIO’S assets. CUSTODY FEES typically contain an asset-based portion and a transaction-based portion of the fee. The total CUSTODY FEE may also include charges for additional services, including accounting, securities lending, or performance measurement. CUSTODY FEES that are charged per transaction SHOULD be included in the CUSTODY FEE and not included as part of the TRADING EXPENSES.

**DIRECT INVESTMENTS (PRIVATE EQUITY)** An investment made directly in ~~VENTURE CAPITAL or~~ PRIVATE EQUITY assets ~~(i.e., not via a partnership or fund).~~

**DISPERSION** A measure of the spread of the annual returns of individual PORTFOLIOS within a COMPOSITE. Measures may include, but are not limited to, high/low, inter-quartile range, and standard

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deviation (asset weighted or equal weighted).

**DISTINCT BUSINESS ENTITY** A unit, division, department, or office that is organizationally and functionally segregated from other units, divisions, departments, or offices and retains discretion over the assets it manages and should have autonomy over the investment decision-making process. Possible criteria that can be used to determine this include:

- being a legal entity
- having a distinct market or client type (e.g., institutional, retail, private client, etc.)
- using a separate and distinct investment process

**DISTRIBUTION (PRIVATE EQUITY and REAL ESTATE)** Cash or the value of stock disbursed to the LIMITED PARTNERS of a ~~venture~~ PRIVATE EQUITY or REAL ESTATE fund.

**DRAWDOWN (PRIVATE EQUITY and REAL ESTATE)** ~~After the total committed capital has been agreed upon between the GENERAL PARTNER and the LIMITED PARTNERS, the actual~~ The intermittent transfer of funds from the LIMITED PARTNERS to the GENERAL PARTNER'S control ~~in as many stages as deemed necessary by the GENERAL PARTNER.~~ A DRAWDOWN is also known as a capital call.

~~**ENDING MARKET VALUE (PRIVATE EQUITY)** The remaining equity that a LIMITED PARTNER has in a fund. Also referred to as net asset value or RESIDUAL VALUE.~~

**EVERGREEN FUND (PRIVATE EQUITY)** An OPEN-END FUND that allows for on-going investment and/or redemption by investors. Some EVERGREEN FUNDS reinvest profits in order to ensure the availability of capital for future investments.

**EX-ANTE** Before the fact. ~~(See EX POST.)~~

**EX-POST** After the fact. ~~(See EX ANTE.)~~

**EXTERNAL CASH FLOW** ~~Cash, securities, or assets that enter or exit~~ Capital (cash or investments) contributions to or withdrawals from a PORTFOLIO.

**EXTERNAL VALUATION (REAL ESTATE)** An ~~EXTERNAL VALUATION is an~~ assessment of MARKETFAIR VALUE performed by an independent third party who is a qualified, PROFESSIONALLY DESIGNATED, CERTIFIED, OR LICENSED COMMERCIAL PROPERTY VALUER/APPRaiser. ~~EXTERNAL VALUATIONS MUST be completed following the valuation standards of the local governing appraisal body.~~

**FAIR VALUE** The amount at which an asset could be ~~acquired or sold-exchanged~~ in a current arm's length transaction between willing parties in which the parties each acted knowledgeably, prudently, and without compulsion. See GIPS Valuation Principles in Appendix D.

**FEE SCHEDULE** The FIRM'S current INVESTMENT MANAGEMENT FEES or BUNDLED FEES relevant for to the particular ~~presentation~~ COMPLIANT PRESENTATION. This schedule is typically listed by asset level ranges and should be appropriate to the ~~particular prospective client~~ PROSPECTIVE CLIENT receiving the COMPLIANT PRESENTATION.

**FINAL LIQUIDATION DATE (PRIVATE EQUITY)** The date when a COMPOSITE is fully distributed.

**FINAL REALIZATION (LIQUIDATION) DATE (PRIVATE EQUITY/REAL ESTATE)** The date when a COMPOSITE is fully distributed.

**FIRM** ~~For purposes of the GIPS standards, t~~ The term "FIRM" refers to the entity defined for compliance with the GIPS standards. See the term "DISTINCT BUSINESS ENTITY."

**GENERAL PARTNER (PRIVATE EQUITY and REAL ESTATE)** ~~(GP) a~~ A class of partner in a partnership. The GP-GENERAL PARTNER retains liability for the actions of the partnership. ~~In the PRIVATE EQUITY world, t~~ The GP-GENERAL PARTNER is the fund manager and the LIMITED PARTNERS (LPs) are the ~~institutional and high net worth~~ investors in the partnership. The GP-GENERAL

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**PARTNER** earns a management fee and is typically allocated a percentage of the profits. (See ~~the term~~ “CARRIED INTEREST.”)

**GIPS PERFORMANCE EXAMINATION** See PERFORMANCE EXAMINATION.

**GIPS VERIFICATION** See VERIFICATION.

**GROSS-OF-FEES RETURN** The return on assets reduced by any TRADING EXPENSES incurred during the period.

**GROSS-OF-FEES RETURN (PRIVATE EQUITY)** The return on assets reduced by any TRANSACTION EXPENSES incurred during the period.

**INCOME RETURN (REAL ESTATE)** The investment income ~~accrued~~ earned on all assets (including cash and cash equivalents) during the measurement period net of all nonrecoverable expenditures, interest expense on debt, and property taxes. The return is computed as a percentage of the CAPITAL EMPLOYED through the measurement period.

**INTERNAL VALUATION (REAL ESTATE)** ~~An INTERNAL VALUATION is an advisor’s A FIRM’S or underlying third-party manager’s~~ best estimate of MARKET FAIR VALUE based on the most current and accurate information available under the circumstances. An INTERNAL VALUATION could include industry practice techniques, such as discounted cash flow, sales comparison, replacement cost, or a review of all significant events (both general market and asset specific) that could have a material impact on the investment. Prudent assumptions and estimates **MUST** be used, and the process **MUST** be applied consistently from period to period, except where a change would result in better estimates of MARKET FAIR VALUE.

**INTERNAL RATE OF RETURN (IRR) (PRIVATE EQUITY and REAL ESTATE)** ~~is~~ The annualized implied discount rate (effective compounded rate) that equates the present value of all EXTERNAL CASH FLOWS and the present value of the RESIDUAL VALUE.

~~the appropriate cash inflows (PAID-IN CAPITAL, such as DRAWDOWNS for net investments) associated with an investment with the sum of the present value of all the appropriate cash outflows (such as DISTRIBUTIONS) accruing from it and the present value of the unrealized RESIDUAL PORTFOLIO (unliquidated holdings). For an interim cumulative return measurement, any IRR depends on the valuation of the residual assets.~~

**INVESTED CAPITAL (PRIVATE EQUITY and REAL ESTATE)** The amount of PAID-IN CAPITAL that has been invested in PORTFOLIO ~~companies~~ investments.

~~INVESTMENT ADVISOR (PRIVATE EQUITY) Any individual or institution that supplies investment advice to clients on a per fee basis. The INVESTMENT ADVISOR inherently has no role in the management of the underlying capital PORTFOLIO companies of a partnership/fund.~~

**INVESTMENT MANAGEMENT FEE** The fee payable to the investment management FIRM for the ~~ongoing~~ management of a PORTFOLIO. INVESTMENT MANAGEMENT FEES are typically asset based (percentage of assets), performance based (~~based on performance relative to a BENCHMARK~~) (see PERFORMANCE BASED FEE), or a combination of the two but may take different forms as well. The INVESTMENT MANAGEMENT FEE is also defined to include CARRIED INTEREST.

**INVESTMENT MULTIPLE (TVPI-MULTIPLE) (PRIVATE EQUITY and REAL ESTATE)** The ratio of TOTAL VALUE to PAID-IN CAPITAL. It represents the ~~TOTAL~~ total RETURN of the investment to the ~~original~~ investment not taking into consideration ~~the time invested~~, a compound rate of return. TOTAL VALUE can be found by adding the RESIDUAL VALUE and ~~distributed capital~~ CAPITAL DISTRIBUTIONS together.

**LARGE EXTERNAL CASH FLOW** ~~The Standards do not contain a specified amount of cash or percentage that is considered to be a LARGE EXTERNAL CASH FLOW. Instead, FIRMS MUST define the COMPOSITE specific size (amount or percentage) that constitutes a LARGE EXTERNAL CASH FLOW. The level at which the FIRM determines that a client directed EXTERNAL CASH FLOW may distort performance if the PORTFOLIO is not revalued. FIRMS MUST define the amount in terms of the value of cash/asset flow, or in terms of a percentage of PORTFOLIO or COMPOSITE assets, and value the~~

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PORTFOLIO at the time of all LARGE CASH FLOWS.

**LIMITED PARTNER (PRIVATE EQUITY and REAL ESTATE)** An investor in a LIMITED PARTNERSHIP. The GENERAL PARTNER is liable for the actions of the partnership and the LIMITED PARTNERS are generally protected from legal actions and any losses beyond their original investment. ~~The LIMITED PARTNER receives income, capital gains, and tax benefits.~~

**LIMITED PARTNERSHIP (PRIVATE EQUITY and REAL ESTATE)** The legal structure used by most ~~venture and~~ PRIVATE EQUITY ~~funds and~~ REAL ESTATE CLOSED-END FUNDS. LIMITED PARTNERSHIPS are usually fixed life investment vehicles. The GENERAL PARTNER or ~~management firm~~ FIRM manages the partnership using the policy laid down in a partnership agreement. ~~The agreement also covers terms, fees, structures, and other items agreed between the LIMITED PARTNERS and the GENERAL PARTNER.~~

**LINK** 1) Mathematical Linking: The method by which sub-period returns are geometrically combined to calculate the period return using the following formula: Period total return =  $(1+R_1)*(1+R_2)...(1+R_n))-1$  where  $R_1, R_2...R_n$  are the sub-period returns for sub-period 1 through n respectively.

2) Presentational Linking: To be visually connected or otherwise associated within a COMPLIANT PRESENTATION (e.g., two pieces of information can be LINKED by placing them next to each other).

**MARKET VALUE** The current price at which investors buy or sell securities at a given time.

~~MARKET VALUE (REAL ESTATE) The most probable price that a property SHOULD bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:~~

- ~~a.—Buyer and seller are typically motivated.~~
- ~~b.—Both parties are well informed or well advised and each acting in what they consider their own best interests.~~
- ~~c.—A reasonable time is allowed for exposure in the open market.~~
- ~~d.—Payment is made in terms of currency or in terms of financial arrangements comparable thereto.~~
- ~~e.—The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.~~

**MUST** A task or action that is mandatory or REQUIRED to be performed. ~~A REQUIRED provision for claiming compliance with the GIPS standards.~~ (See the term “REQUIRE/REQUIREMENT”)

**MUST NOT** A task or action that is forbidden or prohibited.

**NET-OF-FEES RETURN** The GROSS-OF-FEES RETURN reduced by ~~the~~ INVESTMENT MANAGEMENT FEES (including PERFORMANCE BASED FEES and CARRIED INTEREST).

**OPEN END FUND (PRIVATE EQUITY)** A type of investment fund where the number of investors and the total COMMITTED CAPITAL is not fixed (i.e., open for subscriptions and/or redemptions). (See the term “EVERGREEN FUND”)

~~OPEN MARKET VALUE (REAL ESTATE) An opinion of the best price at which the sale of an interest in the property would have been completed unconditionally for cash consideration on the date of valuation, assuming:~~

- ~~a.—willing seller;~~
- ~~b.—that prior to the date of valuation there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of the price and terms, and for the completion of the sale;~~

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~~e.—that the state of the market, level of values, and other circumstances were on any earlier assumed date of exchange of contracts the same as on the date of valuation;~~

~~d.—that no account is taken of any additional bid by a prospective purchaser with a special interest; and that both parties to the transaction had acted knowledgeably, prudently, and without compulsion.~~

**PAID-IN CAPITAL (PRIVATE EQUITY and REAL ESTATE)** The amount of COMMITTED CAPITAL a LIMITED PARTNER has actually transferred to a ~~venture~~ fund. Also known as the cumulative DRAWDOWN amount.

**PERFORMANCE BASED FEE** A type of INVESTMENT MANAGEMENT FEE that is typically based on the performance of the PORTFOLIO on an absolute basis or relative to a BENCHMARK.

**PERFORMANCE EXAMINATION** A detailed examination of a specific COMPOSITE COMPLIANT PRESENTATION by a verifier. Also known as a GIPS PERFORMANCE EXAMINATION.

**PERIODICITY** The length of the time period over which a variable is measured (e.g., a variable that is measured at a monthly periodicity consists of observations for each month).

**PIC MULTIPLE (PRIVATE EQUITY and REAL ESTATE)** The ratio of PAID-IN CAPITAL to COMMITTED CAPITAL. This ratio gives ~~prospective clients~~ PROSPECTIVE CLIENTS information regarding how much of the total ~~commitments~~ COMMITTED CAPITAL has been drawn down.

**PORTFOLIO** An individually managed pool of assets. A PORTFOLIO may be a subportfolio, account, or pooled ~~fund~~ vehicle.

**PRIVATE EQUITY** PRIVATE EQUITY includes, but is not limited to, organizations devoted to ~~VENTURE CAPITAL~~ venture capital, leveraged buyouts, consolidations, mezzanine and distressed debt investments, and a variety of hybrids, such as venture leasing and venture factoring.

**PROFESSIONALLY DESIGNATED, CERTIFIED, OR LICENSED COMMERCIAL PROPERTY VALUER/APPRaiser (REAL ESTATE)** In Europe, Canada and parts of ~~southeast~~ Southeast Asia, the predominant professional designation is that of the Royal Institution of Chartered Surveyors (RICS). In the United States, the professional designation is Member [of the] Appraisal Institute (MAI). In addition, each state regulates REAL ESTATE appraisers, and based on one's experience, body of work, and test results, is then registered, licensed, or certified.

**PROPRIETARY ASSETS** Assets owned by the FIRM, the FIRM'S management, or the FIRM'S parent company.

**PROSPECTIVE CLIENT** Any person or entity that qualifies to invest in a COMPOSITE strategy (e.g., has assets above the COMPOSITE minimum asset level) and has expressed interest in one of the FIRM'S strategies. Existing clients may also qualify as PROSPECTIVE CLIENTS for any strategy that is different from their current investment mandate. Investment consultants and other third parties are included as PROSPECTIVE CLIENTS if they represent investors that qualify as PROSPECTIVE CLIENTS.

Do you agree with the definition of prospective client? If not, how should it be defined?

**PUBLIC MARKET EQUIVALENT (PME) (PRIVATE EQUITY)** The performance of a public market index expressed in terms of an INTERNAL RATE OF RETURN (IRR), using the same cash flows and timing as those of the COMPOSITE over the same time period. A PME can be used as a BENCHMARK by comparing the IRR of a PRIVATE EQUITY investment with the PME of a public market index.

**REAL ESTATE** REAL ESTATE investments include:

- Wholly owned or partially owned properties,
- Commingled funds, property unit trusts, and insurance company separate accounts,

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- Unlisted, private placement securities issued by private REAL ESTATE investment trusts (REITs) and REAL ESTATE operating companies (REOCs), and
- Equity-oriented debt, such as participating mortgage loans or any private interest in a property where some portion of return to the investor at the time of investment is related to the performance of the underlying REAL ESTATE.

**REALIZATION MULTIPLE (DPI) (PRIVATE EQUITY and REAL ESTATE)** The REALIZATION MULTIPLE (~~DPI~~) is calculated by dividing the cumulative DISTRIBUTIONS by the PAID-IN CAPITAL.

**RECOMMEND/RECOMMENDATION** ~~A suggested provision or task for claiming compliance with the GIPS standards.~~ A RECOMMENDATION is considered to be best practice but is not a REQUIREMENT. (See “SHOULD”)

**REQUIRE/REQUIREMENT** A provision or task that MUST be followed. ~~for compliance with the GIPS standards.~~ (See “MUST”)

**RESIDUAL VALUE (PRIVATE EQUITY and REAL ESTATE)** The remaining equity that a LIMITED PARTNER has in the fund. (The value of the investments within the fund.) ~~Also can be referred to as ENDING FAIR VALUE or net asset value.~~

**RESIDUAL VALUE TO PAID-IN CAPITAL (RVPI) (PRIVATE EQUITY and REAL ESTATE)** RESIDUAL VALUE divided by the PAID-IN CAPITAL.

**SETTLEMENT DATE ACCOUNTING** Recognizing the asset or liability on the date when the exchange of cash, securities, and paperwork involved in a transaction is completed.

~~Impact on performance: Between TRADE DATE and SETTLEMENT DATE, an account does not recognize any change between the price of the transaction and the current MARKET VALUE. Instead, on SETTLEMENT DATE, the total difference between the price of the transaction and the current MARKET VALUE is recognized on that day. (See TRADE DATE ACCOUNTING.)~~

**SHOULD** ~~A task or action that is RECOMMENDED to be performed, but is not REQUIRED. Encouraged (RECOMMENDED) to follow the RECOMMENDATION of the GIPS standards but not REQUIRED.~~ (See “RECOMMEND/RECOMMENDATION”)

**SIGNIFICANT CASH FLOW** The level at which the FIRM determines that a client directed EXTERNAL CASH FLOW may temporarily prevent the FIRM from implementing the COMPOSITE strategy.

**SUB-ADVISOR** A third party investment manager hired by the FIRM to manage some or all of the FIRM’S assets.

**STANDARD DEVIATION** A statistical measure of how widely the actual returns were dispersed from the average return.

**SUPPLEMENTAL INFORMATION** ~~Any performance-related information included as part of a complaint performance presentation.~~ COMPLIANT PRESENTATION that supplements or enhances the REQUIRED and/or RECOMMENDED disclosure and presentation provisions of the GIPS standards.

**TEMPORARY NEW ACCOUNT** A tool that FIRMS can use to remove the effect of ~~significant cash flows~~ SIGNIFICANT CASH FLOWS on a PORTFOLIO. When a ~~significant cash flow~~ SIGNIFICANT CASH FLOW occurs in a PORTFOLIO, the FIRM may treat this cash flow as a “TEMPORARY NEW ACCOUNT,” allowing the FIRM to implement the mandate of the PORTFOLIO without the impact of the cash flow on the performance of the PORTFOLIO.

**TIME-WEIGHTED RATE OF RETURN** Calculation that computes period-by-period returns on an investment and removes the effects of EXTERNAL CASH FLOWS, which are generally client-driven, and best reflects the FIRM’S ability to manage assets according to a specified strategy or objective.

**TOTAL FIRM ASSETS** ~~TOTAL FIRM ASSETS are all~~ All discretionary and nondiscretionary assets for

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which a FIRM has investment management responsibility. TOTAL FIRM ASSETS include assets ~~managed outside of the FIRM (e.g., by subadvisors) for which the FIRM has asset allocation authority assigned to a SUB-ADVISOR~~ provided the FIRM has discretion over the selection of the SUB-ADVISOR.

**TOTAL RETURN** A rate of return that includes the realized and unrealized gains and losses plus income (loss) for the measurement period.

**TOTAL RETURN (REAL ESTATE)** ~~The change in the MARKET VALUE of the PORTFOLIO, adjusted for all capital expenditures (subtracted), net proceeds from sales (added), and investment income accrued (added) during the measurement period~~ The rate of return, including all CAPITAL RETURN and INCOME RETURN elements, expressed as a percentage of the CAPITAL EMPLOYED ~~in the PORTFOLIO~~ over the measurement period.

**TOTAL VALUE (PRIVATE EQUITY and REAL ESTATE)** RESIDUAL VALUE ~~of the PORTFOLIO~~ plus ~~distributed capital~~ DISTRIBUTIONS.

**TRADE DATE ACCOUNTING** The transaction is reflected in the PORTFOLIO on the date of the purchase or sale, and not on the SETTLEMENT DATE. Recognizing the asset or liability within ~~at least 3~~ days of the date the transaction is entered into (~~T~~Trade ~~D~~ate, T+ 1, T+2, or T+3) ~~all~~ satisfies the TRADE DATE ACCOUNTING REQUIREMENT for purposes of the GIPS standards. (See SETTLEMENT DATE ACCOUNTING.)

**TRADING EXPENSES** The costs of buying or selling a security. These costs typically take the form of brokerage commissions, exchange fees and/or taxes, and bid/offer ~~or~~ spreads from either internal or external brokers. CUSTODY FEES charged per transaction SHOULD be considered CUSTODY FEES and not ~~direct transaction costs~~ TRADING EXPENSES. Estimated TRADING EXPENSES are not permitted.

**TRANSACTION EXPENSES (PRIVATE EQUITY)** Include all legal, financial, advisory, and investment banking fees related to buying, selling, restructuring, and recapitalizing ~~PORTFOLIO companies~~ investments.

~~**VENTURE CAPITAL (PRIVATE EQUITY)** Risk capital in the form of equity and/or loan capital that is provided by an investment institution to back a business venture that is expected to grow in value.~~

**VERIFICATION** A process by which a verifier tests whether the FIRM has complied with all the COMPOSITE construction REQUIREMENTS of the GIPS standards on a FIRM-wide basis, and the FIRM'S processes and procedures are designed to calculate and present performance results in compliance with the GIPS standards. Also known as GIPS VERIFICATION.

**VERIFICATION REPORT** A document issued by a verifier reporting the matter being reported on, the scope of procedures performed, and the conclusions reached as to the FIRM'S compliance with all the COMPOSITE construction REQUIREMENTS of the GIPS standards on a FIRM-wide basis, and the design of its processes and procedures to calculate and present performance results in compliance with the GIPS standards as of a specified period or date.

**VINTAGE YEAR (PRIVATE EQUITY and REAL ESTATE)** Two methods that can be used to determine VINTAGE YEAR include:

1. The year ~~that the VENTURE CAPITAL or PRIVATE EQUITY fund or partnership of the fund's~~ first DRAWDOWN or ~~calls~~ capital call from its investors, or
2. The year when the first COMMITTED CAPITAL from outside investors is closed and legally binding.

**WRAP FEE** WRAP FEES are a type of BUNDLED FEE and are specific to a particular investment product. The WRAP FEE is charged by a WRAP FEE sponsor for investment management services and typically includes associated TRADING EXPENSES that cannot be separately identified. WRAP FEES can be all-inclusive asset based fees and may include a combination of INVESTMENT MANAGEMENT FEES, TRADING EXPENSES, CUSTODY FEES, and ADMINISTRATIVE FEES. WRAP FEE PORTFOLIOS are sometimes referred to as "separately managed accounts" (SMA) or "managed accounts".